PAPER FOR PUBLIC EFRAG BOARD MEETING

Disclosure Initiative – Principles of Disclosure

Preliminary Views: Responses to the questions in the Discussion Paper

Note to constituents

In order to provide constituents with the maximum amount of time possible for considering the Discussion Paper DP/2017/1 *Disclosure Initiative-Principles of Disclosure,* the EFRAG Board is undertaking a two-stage process in seeking the views of constituents.

This first stage consists of EFRAG's preliminary responses to the questions in the IASB's Discussion Paper. Subsequently, EFRAG expects to issue a full draft comment letter that may address matters beyond those specifically raised in the IASB's Discussion Paper.

Comments should be submitted by [date] by using the 'Express your views' page on EFRAG website or by clicking here

Summary of comments: Discussion Paper DP/2017/1 *Disclosure Initiative-Principles of Disclosure*

EFRAG welcomes the IASB's Principles of Disclosure project. The view that the Disclosure Initiative was one of the most important research projects that the IASB should undertake culminated in EFRAG's response to the 2015 IASB Agenda Consultation.

EFRAG agrees with the description in the DP of the 'disclosure problem', which echoes largely assessments made in the Discussion Paper *Towards a Disclosure Framework for the Notes,* published by EFRAG, the Autorité des Normes Comptables (ANC) and the Financial Reporting Council (FRC) in 2012. However, in EFRAG's view, the Principles of Disclosure project should not limit its focus to the structure of the notes or the location of information but rather aim to develop principles to identify why, when and where information should be disclosed. Otherwise it could result in over-prescriptive guidance and could fail to achieve the objectives of the Disclosure Initiative to reduce clutter and improve disclosure effectiveness.

EFRAG also observes that the DP does not specifically address some of the issues that were identified when the project was initially started and in particular:

- the need to clarify the boundary between financial statements and the annual report;
- the consideration of the impact of technology on the presentation of financial statements and the relationship between general-purpose reporting and electronic filing; and

- the scalability of disclosure requirements and the relevance of the proposals to the broad spectrum of listed companies.

Lastly, EFRAG is also concerned about the lack of clarity in the overlap with other IASB projects, in particular the interactions with the *Materiality* and *Primary Financial Statements* projects and considers that the IASB should address these issues comprehensively within a single project.

EFRAG's detailed comments and responses to the questions in the DP are set out in the Appendix. A summary is provided in the paragraphs below.

Principles of effective communication

EFRAG welcomes the IASB's proposal to develop guidance on effective communication in preparing the financial statements and broadly agrees with the principles identified by the IASB. EFRAG suggests that the IASB could include principles of effective communication in the form of non-authoritative guidance (such as illustrative examples or implementation guidance) that will accompany but will not form part of, the general disclosure standard.

EFRAG also welcomes the IASB's proposal to develop non-mandatory guidance on formatting and suggests that this guidance be included together with the guidance on principles of effective communication.

Roles of the primary financial statements and of the notes

EFRAG welcomes the overall objective of providing additional guidance on the roles of the primary financial statements and the notes.

However, EFRAG regrets that the DP does not include a broader discussion about the relevance of the distinction between primary financial statements and notes in the context of increased use of digital reporting.

EFRAG has significant concerns in relation to the proposed definition of the respective roles of primary financial statements and of the notes. EFRAG considers in particular that:

- the proposed definition of the role of the primary financial statements focuses too much on the elements (assets, liabilities, income, expense) and not enough on the overall objective of providing summarised information about financial performance and financial position; and
- the proposed definition of the role of the notes does not set the boundaries of the notes and seem to ignore or down-play certain sections contained in the notes (such as segment information or information on unrecognised assets and liabilities) which do not merely supplement or explain the information in the primary financial statement but have information value in their own right.

Location of information

<u>Disclosing IFRS information outside the financial statements</u>

EFRAG acknowledges that the use of cross references is already explicitly permitted in a few specific areas of IFRS Standards, and applied more widely in practice in some jurisdictions. Therefore, EFRAG welcomes the provision of guidance in that area. However, further work is needed, together with audit authorities and regulators, to consider the audit, legal and regulatory implications of the proposed guidance across a range of different jurisdictions.

EFRAG considers that the guidance should be principles-based rather than refer to specific documents such as the annual report (where the content may vary across jurisdictions and over time as electronic reporting becomes more predominant) and is concerned that the proposed requirement to allow the use of a cross-reference only 'if it makes the annual report as a whole more understandable' would not be practical to implement in an IFRS Standard as it could step outside the boundaries of the IASB's mandate.

Providing information identified as non-IFRS within the financial statements

In EFRAG's view the proposed guidance could lead to clutter if not better targeted. The primary focus for the guidance should be on non-IFRS information that is inconsistent or in conflict with IFRS information. The proposed guidance would not be appropriate for non-financial measures or alternative performance measures that are presented in accordance with IFRS Standards.

EFRAG considers that the IASB should not restrict the use of non-IFRS information, other than information that are inconsistent with IFRS, as it may limit the ability of an entity to provide information that is relevant to users or may conflict with regulatory requirements, and thus would not be practical.

Use of performance measures in the financial statements

EFRAG is concerned that the piecemeal discussion on EBIT/EBITDA is unrelated to the main objective of the DP which is to provide principles of disclosure. EFRAG is of the view that the use of such metrics should be addressed as part of the *Primary Financial Statements* research project. Until that project is complete, IAS 1 provides guidance on the presentation of subtotals in the primary financial statements.

EFRAG supports the provision of guidance on the classification of items as unusual or infrequently occurring, and associated disclosures considering their widespread use. However, definitions of unusual or infrequently occurring items would not be practical, as there are many factors involved and the way each company defines them depends heavily on the facts and circumstances.

However, EFRAG considers that the discussion should not be restricted to unusual or infrequently occurring items but consider more broadly why adjustments are made to performance reporting. Such adjustments are not only linked to the frequency or amounts of transactions but include wider issues such as underlying performance or organic growth.

Finally, EFRAG agrees that a general disclosure standard should provide guidance as to how performance measures can be fairly presented in financial statements and agrees with the qualitative requirements identified in the DP. However, EFRAG is concerned that the definition of performance measures is overly broad and could lead to boilerplate disclosures.

Disclosure of accounting policies

EFRAG considers that the objective of disclosing accounting policies is to provide an entity-specific description of the accounting policies that have been applied and that are necessary for an understanding of the financial statements. EFRAG agrees that the proposed guidance about disclosure of accounting policies can be useful but should not be overly prescriptive as to the form and location of disclosures so as to allow necessary flexibility to determine the level of disclosure that most appropriately reflects users' needs.

Centralised disclosure objectives

EFRAG supports the objective to further explore whether a more holistic and unified approach is achievable in developing disclosure objectives. However, EFRAG considers that a necessary preliminary step would be to clarify the boundaries of the notes; and that disclosure objectives, would not be helpful if expressed too generically.

EFRAG does not support grouping all disclosure requirements in a single standard, but acknowledges that, in some cases, it may be useful to cover disclosures on related topics in a single standard.

Appendix - EFRAG's draft responses to the questions raised in the DP

Contents

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

Question 1

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

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?

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?

Question 2

Are there any other disclosure issues that the IASB 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?

Notes to constituents

1 The IASB has identified three main concerns about information contained in financial statements (collectively referred to as the disclosure problem). These concerns are:

(a) *not enough relevant information;*

(b) *irrelevant information; and*

(c) *ineffective communication of the information provided.*

2 The IASB considers that the main causes of the disclosure problem are:

(a) *difficulties in applying judgement when deciding what information to disclose in financial statements and when deciding the most effective way to organise and communicate that information;*

(b) *difficulties arising from behavioural issues, observing that some entities, auditors and regulators appear to approach financial statements as only compliance documents;*

(c) *lack of guidance on the content and structure of the financial statements;*

(d) *the absence of clear disclosure objectives in IFRS Standards; and*

(e) *long lists of prescriptive disclosure requirements.*

3 The IASB considers that a set of disclosure principles could help address the disclosure problem by:

(a) *helping entities apply better judgement about disclosures and communicate information more effectively;*

(b) *improving the effectiveness of disclosures for the primary users of the financial statements; and*

(c) *helping the IASB in improving disclosure requirements in IFRS Standards.*

4 The Principles of Disclosure project is likely to either result in amendments to IAS 1 Presentation of Financial Statements, or alternatively create a new general disclosure standard that would incorporate and build on those parts of IAS 1 that cover disclosures in the financial statements. Throughout the DP, the IASB uses the *term 'general disclosure standard' to refer to either an amended IAS 1 or a new general disclosure standard.*

EFRAG's response

EFRAG agrees with the description in the DP of the 'disclosure problem', which echoes assessments made in the Discussion Paper *Towards a Disclosure Framework for the Notes* published by EFRAG, the ANC and the FRC in 2012. However, EFRAG is concerned that, while the DP includes proposals that address many different areas, the DP does not address a number of relevant areas that are described in our detailed response below.

In our view, the project should aim to develop principles to identify why, when and where information should be disclosed.

Further, EFRAG is concerned about the significant overlap between the DP and other projects of the IASB, in particular the interactions with the *Materiality* and *Primary Financial Statements* projects and considers that the IASB should address these issues comprehensively within a single project.

5 EFRAG welcomes the IASB's initiative to develop guidance in order to address the disclosure issue.

6 EFRAG agrees with the description of the disclosure issue made by the IASB. In the EFRAG/ANC/FRC DP, EFRAG acknowledged that the relevance of the notes to the financial statements have become deteriorated for a number of reasons. In particular, EFRAG noted two main areas for improvement of the quality of disclosures:

(a) avoiding disclosure overload, which may be caused both by excessive requirements in the IFRS Standards, and by ineffective application of materiality in the financial statements; and

(b) enhancing how disclosures are organised and communicated in the financial statements to make them easier to understand and to compare.

7 EFRAG agrees with the IASB that the disclosure problem is not just about quantity (i.e. the disclosure overload) but also the quality and effectiveness of disclosures, in terms of meeting the needs of users.

8 EFRAG notes in particular that, although many factors contributed to the disclosure problem, one of the reasons for unsatisfactory disclosure requirements in IFRS Standards is that these requirements have largely been developed on a standard-by-standard basis without taking an overall perspective. Therefore, EFRAG welcomes the objective to provide a set of disclosure principles to improve the effectiveness of disclosures.

Addressing the disclosure problem

9 As also referred to in the EFRAG/ANC/FRC DP, one of the main causes of the disclosure problem is that difficulties in applying judgement are often behavioural, rather than caused by the requirements in IFRS Standards. In particular, that preparers, as well as auditors and regulators, opt for 'safety' by using a 'checklist' approach. This factor has, in combination with others, diminished the relevance of the information in the notes to the financial statements.

10 EFRAG therefore considers that the development of disclosure principles would be helpful in order to contribute to the effort in the wider financial reporting community to address the disclosure problem. The EFRAG/ANC/FRC DP provided a number of suggestions in developing a Disclosure Framework. EFRAG welcomes the fact that the IASB's proposals address all these suggestions.

11 However, in EFRAG's view, the project should not limit its focus to the structure of the notes or the location of information but rather aim to develop principles to identify

why, when and where information should be disclosed. Otherwise it could result in over-prescriptive guidance and could fail to achieve the objectives of the *Disclosure Initiative* to reduce clutter and improve disclosure effectiveness.

12 EFRAG noted a few other areas that are not considered in the DP that are relevant factors contributing to the disclosure problem:

(a) the need to clarify the boundary between financial statements and the annual report;

(b) the consideration of the impact of technology on the presentation of financial statements, rather than focus only on printed financial report, and the relationship between general-purpose reporting and electronic filing; and

(c) the scalability of disclosure requirements and the relevance of the proposals to the broad spectrum of listed companies.

13 Furthermore, there is significant overlap between the projects on the *Conceptual Framework*, *Primary Financial Statements* and *Principles of Disclosure*. We have the following comments in relation to this overlap:

(a) the definition and role of primary financial statements should be discussed in the project on the *Conceptual Framework* or *Primary Financial Statements*, instead of introducing the description in this DP;

(b) the role of the notes was discussed in the project of the *Conceptual Framework*, which implies that one proposal would be subjected to two consultations and run the risk of contradictory feedback; and

(c) while we understand that the DP seeks initial feedback on clarifications related to EBIT, EBITDA and on unusual or infrequently occurring items, to inform the *Primary Financial Statements* project, we do not support including a question for a different project in this consultation document as this may confuse stakeholders. In addition, in our opinion, any output from such consultations should only be considered as supplementary evidence, but should not drive the *Primary Financial Statements* project.

14 EFRAG notes that the overlap described above may create confusion for constituents on the boundaries of the various projects and suggests that the IASB address these issues comprehensively within a single project.

SECTION 2 - Principles of effective communication

Question 3

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

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

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? If you support the issuance of non-mandatory guidance, please specify the form of non-mandatory guidance you suggest and give your reasoning.

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, please specify the form of non-mandatory guidance you suggest and give your reasoning.

Notes to constituents

15 The IASB proposes to develop a set of principles of effective communication to help entities communicate information more effectively in the financial statements. The IASB proposes that the 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 or unnecessarily increasing the length of the financial statements;*

(c) *organised in a way that highlights important matters, including 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 of the DP) 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 (e.g. lists, tables, narrative text) that is appropriate for that type of information.*

16 The IASB observes that an entity might need to make a trade-off between some of these principles when preparing its financial statements. For example, while tailoring disclosures to an entity's own circumstances can help to ensure that information is relevant and easier for users of the financial statements to understand, it might reduce comparability and consistency between entities and periods. The IASB recommends that an entity use judgement when applying these principles in order to maximise the usefulness of the information for users of the financial statements.

17 The principles (a)-(f) listed in paragraph 2.6 of the DP were included in the IASB' 2013 Discussion Paper: A Review of the Conceptual Framework for Financial Reporting. Many respondents to the Conceptual Framework Discussion Paper, *including EFRAG, agreed with including these principles in the Conceptual Framework. However, some respondents suggested that some or all of them would be better placed in an IFRS Standard. The IASB observed that some of the principles focus more on the preparation of the financial statements than on underlying concepts.*

18 *Accordingly, in developing the Conceptual Framework Exposure Draft the IASB proposed to include in the Conceptual Framework only communication principles (a) and (f) that also describe the underlying concepts.*

19 *The IASB has not formed a preliminary view on whether the principles of effective communication should be included in non-mandatory guidance or prescribed in a general disclosure standard.*

20 *The DP states that non-mandatory guidance could be:*

(a) *in the form of illustrative examples or implementation guidance that accompany, but do not form part of, the general disclosure standard;*

(b) *in the form of a Practice Statement that does not accompany a specific IFRS Standard; or*

(c) *provided as separate educational material, for example made available on the IFRS Foundation's website.*

21 *According to the IASB, non-mandatory guidance as described in in paragraph 20(a) and (b) above would be included in Part B of the IFRS Bound Volume and subject to full due process. Educational material as described in in paragraph 20(c) above would be subject to due process of a more limited nature.*

22 *The IASB suggests that it should develop non-mandatory guidance on the use of formatting in the financial statements, which would provide guidance on the types of formats, when a particular format might be more appropriate than another and some illustrative examples.*

EFRAG's response

EFRAG welcomes the IASB's proposal to develop guidance on effective communication in preparing the financial statements and broadly agrees with the principles identified by the IASB. EFRAG suggests that the IASB could include principles of effective communication in the form of non-authoritative guidance (such as illustrative examples or implementation guidance) that will accompany but will not form part of, the general disclosure standard.

EFRAG also welcomes the IASB's proposal to develop non-mandatory guidance on formatting for the notes and suggests that this guidance be included together with the guidance on principles of effective communication.

Principles of effective communication

23 EFRAG welcomes the IASB's proposal to develop principles of effective communication, which can be used in preparing the financial statements. As stated in the EFRAG/ANC/FRC DP, poor communication hinders the provision of quality information, especially within lengthy reports. Further, the EFRAG/ANC/FRC DP recognised the importance of financial statements as a tool to communicate information to users, rather than being seen only as a compliance exercise and that principles of effective communication could improve the quality of disclosures. However, as the notes form part of 'telling the entity's story', it would be difficult to establish anything other than high-level generic principles.

24 EFRAG generally agrees with the principles identified by the IASB, as these are broadly similar to those identified in EFRAG/ANC/FRC DP. However, in EFRAG's view, the link between communication principles and the qualitative characteristics

of useful financial information in the Conceptual Framework should be enhanced. For example, EFRAG understands that the communication principle (a) relates to the relevance of information, communication principles (b), (c), (d), (e), (f) and (g) relate to the understandability of information, communication principle (b) also relates to the faithful representation and communication principle (f) also relates to the comparability of information.

25 EFRAG agrees with the IASB that entities need to use judgment when applying these communication principles, including the trade-off between these principles. For example, if more emphasis is placed on making disclosures entity-specific and thereby providing more relevant information for users, then inevitably there has to be some ground given up on achieving comparability.

26 Lastly, EFRAG notes that the principle of comparability among entities may be difficult to apply in practice and that the IASB should explain the meaning of the term comparability 'among entities', as this could be interpreted in many ways (e.g. entities in the same industry, in the same jurisdiction).

Form of the guidance on principles of effective communication

27 Although EFRAG appreciates the importance of principles of effective communication in addressing the disclosure problem, we consider that, because of their generic nature, principles of effective communication should not be mandatory, as they would be difficult to enforce and audit. EFRAG suggests that the IASB could include principles of effective communication in the form of illustrative examples or implementation guidance that will accompany, but will not form part of, the general disclosure standard. We consider that guidance which accompanies an IFRS Standard is preferable because it is subject to due process and is given more visibility than educational material or a practice statement. Such a document will also remain accessible over time and will be updated when necessary.

Form of the guidance on formatting

28 EFRAG considers that developing guidance on the use of appropriate formats for the notes may improve the effectiveness of the communication of information in the financial statements. Therefore, EFRAG welcomes the IASB's proposal to develop non-mandatory guidance material on formatting, which would cover the types of formats available, when a particular format might be appropriate and some illustrative examples.

29 EFRAG considers that such guidance should be included together with the principles of effective communication, so that constituents can access them within the same document. Having said that, we consider that supplementary guidance on formatting should also be included in the form of illustrative examples or implementation guidance that will accompany, but will not form part of, the general disclosure standard.

Question to constituents

30 Do you agree with EFRAG's recommendation that principles of effective communication and guidance on formatting should be included in the form of illustrative examples or implementation guidance in a general disclosure standard? If so, please explain how you believe a non-mandatory form of guidance may result in positive changes in behaviour. If not, please explain your preferred form of guidance and its likely impact.

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

Question 4

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

(a) specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows;

(b) describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24 of the DP;

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

(d) 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 of the DP.

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

(a) 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

(b) 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 IASB's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

Notes to constituents

31 The IASB's preliminary view is that:

(a) *the role of the primary financial statements is to provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses, which is useful for:*

(i) *obtaining an overview of the entity's assets, liabilities, equity, income and expenses;*

(ii) *making comparisons between entities and reporting periods; and*

(iii) *identifying items or areas within the financial statements about which users of the financial statements will seek additional information in the notes.*

(b) *the role of the notes is to:*

(i) *provide further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements; and*

(ii) *supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.*

32 Finally, the IASB suggests continuing to use the words 'present or 'disclose' interchangeably as in the past (rather than prescribing specific meanings), but be more 'disciplined' by always specifying the intended location (e.g. 'presented in the primary financial statements' or 'presented in the notes').

EFRAG's response

EFRAG welcomes the overall objective of providing additional guidance on the roles of the primary financial statements and the notes.

However, EFRAG regrets that the Discussion Paper does not include a broader discussion about the relevance of the distinction between primary financial statements and notes in the context of the increasing use of digital reporting.

Further, EFRAG considers that:

(a) the proposed definition of the role of the primary financial statements focuses too much on the elements (assets, liabilities, income, expense) and not enough on the overall objective of providing summarised information about financial performance and financial position; and

(b) the proposed definition of the role of the notes does not set the boundaries of the notes and seems to ignore or down-play certain sections contained in the notes (including segment information and information on unrecognised assets and liabilities) which do not merely supplement or explain the information in the primary financial statements but have information value in their own right.

Role of the primary financial statements and of the notes

33 EFRAG regrets that the DP seems to envisage the roles essentially under a traditional paper reporting format and does not include a broader discussion about the relevance of the distinction between primary financial statements and notes when information is more and more available in a digital format.

34 Having said that, EFRAG welcomes the overall objective of providing additional guidance on the roles of the primary financial statements and of the notes. EFRAG considers that defining the roles can help define the boundaries between the notes and the primary financial statements. EFRAG considers that this is a necessary step prior to developing any form of principles of disclosures.

35 EFRAG considers that the term 'primary financial statements' is generally well understood and has not heard major concerns raised by constituents.

36 EFRAG generally agrees that the IASB should define the purpose of the primary financial statements and of the notes. However, EFRAG considers that:

(a) The proposed role of the primary financial statements focuses too much on the elements (assets, liabilities, income, and expense) and not enough on the overall objective of providing summarised information about financial performance and financial position and cash flows; and

(b) the proposed definition of the role of the notes does not set the boundaries of the notes and seem to ignore or down-play certain sections contained in the notes (such as segment information or information on unrecognised assets and liabilities) which do not merely supplement or explain the information in the primary financial statement but have informative value in their own right.

37 EFRAG considers that, to better align the proposed definition of the role of the primary financial statements with the definition of the role of the financial statements as a whole, the IASB could consider the following alternative definition: the role of the primary financial statements is to provide information that is useful for:

(a) assessing the prospects for future cash flows and in assessing management's stewardship of the entity's resources;

(b) making comparisons between entities and reporting periods; and

(c) identifying items or areas within the financial statements about which users of the financial statements will seek additional information in the notes.

38 EFRAG considers that the proposed description of the role of the notes does not define the boundaries of the notes, in particular in the generic reference to ‘all other information that is necessary to meet the objective of financial statements’.

39 EFRAG observes that paragraph 3.28 of the DP defines the role of the notes as providing ‘further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements’. EFRAG notes that the statement of cash flows and the statement of changes in equity also provide forms of reconciliations and therefore this cannot be seen as a discriminating factor.

40 An alternative drafting of paragraph 3.28 of the DP could be considered:

(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.

Using the terms ‘present’ or ‘disclose’

41 In EFRAG’s comment letter in response to the *Conceptual Framework* Exposure Draft, EFRAG stated that the IASB should consider how to distinguish between presentation and disclosure and provide principles for when disclosures should be provided. EFRAG observes that, as the DP proposes a definition of the term ‘primary financial statements’, this would be a logical next step. EFRAG observes that the two terms are sometimes used interchangeably in current IFRS Standards although ‘present’ is more often used to describe including information in the primary financial statements whereas the term ‘disclosure’ is often used to describe including information in the notes.

42 However, EFRAG considers that trying to clarify the respective meanings of the two terms may not necessarily be helpful as the two terms have a common meaning in the English language and nuances would not necessarily translate well in other languages. Furthermore, EFRAG does not consider the distinction between ‘present’ and ‘disclose’ to be a major issue in financial reporting.

43 EFRAG therefore supports the IASB’s proposal to be more disciplined in the use of the term in IFRS Standards by specifying the intended location (e.g. ‘disclosed in the notes’) as a practical solution.

SECTION 4 - Location of information

Disclosing IFRS information outside the financial statements

Question 5

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

Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4 of the DP), 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) of the DP?

Notes to constituents

44 *IFRS Standards already allow entities to provide specified information outside the financial statements in a limited number of cases, for example IFRS 7 Financial Instruments: Disclosures, IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 19 Employee Benefits permit certain disclosures to be incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time or to another group entity's financial statements.*

45 *The IASB proposes that a general disclosure standard should include a principle that information necessary to comply with IFRS Standards can be provided outside the financial statements if such information meets the following requirements:*

(a) *it is provided within the entity's annual report;*

(b) *its location outside the financial statements makes the annual report as a whole more understandable, the financial statements remain understandable and the information is faithfully represented; and*

(c) *it is clearly identified and incorporated in the financial statements by means of a cross-reference that is made in the financial statements.*

46 *The IASB's preliminary view is to describe 'annual report' as 'a single reporting package issued by an entity that includes the financial statements' and has boundaries similar to those described in International Standard on Auditing (ISA) 720 (Revised) The Auditor's Responsibilities Relating to Other Information[1]. The IASB observes that an interim report could also be described as a single reporting package issued by an entity and that the principle in paragraph 4.9 of the DP could similarly be applied to an interim report.*

47 *The IASB proposes to limit the cross-reference of IFRS information in the boundaries of the annual report to avoid the risk of making it difficult to find or access the information that is placed outside of a single reporting package-for example, if*

[1] A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. (Ref: paragraph 12(a) [of ISA 720(Revised)]).

the cross-referenced material is on the entity's public website or in a stand-alone report.

48 *Further, in the Exposure Draft Improvements to IFRS 8 Operating Segments (proposed amendments to IFRS 8 and IAS 34), the IASB proposes including a description of an entity's 'annual reporting package'.*

49 *The IASB observes that the description of an 'annual reporting package' is broader than its description of an 'annual report'. The IASB might incorporate the broader term 'annual reporting package' in the Exposure Draft of proposed amendments to IFRS 8 and IAS 34 depending on the feedback it receives on that document.*

50 *The IASB suggests the following ways that entities could identify clearly the information necessary to comply with IFRS Standards that has been provided outside the financial statements (to meet the requirements in paragraph 4.9(c) of the DP). That is, entities could:*

(a) *provide in the financial statements a list of any information that forms part of the financial statements and is incorporated in them by cross-reference, together with its statement of compliance with IFRS Standards;*

(b) *clearly identify the cross-referenced information as information necessary to comply with IFRS Standards and that forms part of the financial statements;*

(c) *ensure the cross-reference in the financial statements clearly identifies and describes the information that it relates to; and*

(d) *ensure the cross-referenced information remains available over time as part of the annual report.*

EFRAG's response

EFRAG acknowledges that the use of cross references is already a practice and therefore, welcomes the IASB objective to provide guidance in that area. However, further work would be needed, together with audit authorities and regulators, to consider the audit, legal and regulatory implications of the proposed guidance in the different jurisdictions.

EFRAG considers that the guidance should remain principles-based rather than refer to specific documents such as the annual report (where the content may vary across jurisdictions) and reiterates the view that cross-referencing should be limited to information that is available on the same terms, at the same time and continue to be available as long as the financial statements.

EFRAG agrees that a general disclosure standard should include principles guiding the use of cross-referencing but is concerned that the proposed condition that cross-referencing is only allowed 'if it makes the annual report as a whole more understandable' would not be practical to implement and is not appropriate in an IFRS Standard as it could step outside the boundaries of the IASB's mandate.

Should a general disclosure standard allow cross-reference?

51 EFRAG acknowledges that, in some limited cases, IFRS Standards already allow entities to provide specified information outside the financial statements and cross-referencing is applied more widely in practice in some jurisdictions. Therefore, EFRAG agrees that a general disclosure standard should include a general principle that an entity can disclose information necessary to comply with IFRS Standards outside of financial statements if some requirements are met.

52 However, EFRAG acknowledges that the audit implications of cross-referencing may create concerns among the audit profession that need to be considered. Moreover, legal implications would also need to be carefully considered. EFRAG considers further work is needed, together with audit authorities and regulators to

consider the audit, legal and regulatory implications of the proposed guidance in the large number of jurisdictions applying IFRS Standards.

Proposed guidance on cross-references

53 EFRAG agrees with the requirement that cross-referenced information should be clearly identified and should be incorporated in the financial statements through a cross-reference to that information. This would ensure there is clarity regarding the information that is and is not subject to IFRS Standards.

54 EFRAG observes that reporting requirements and practices vary across jurisdictions and across industries and may change over time. Thus, rather than prescribing that cross-referenced information should be limited to an entity's annual report, we suggest that the IASB should highlight the underlying principle, which is that cross-references to information outside the financial statements should be allowed if the information is available to users of the financial statements on the same terms, at the same time and continue to be available as long as the financial statements.

55 In our view, this principle will reach an appropriate basis for cross-referencing, and avoid impairing understandability, It would allow entities to include information in the financial statements by cross-reference (not necessarily included in the 'single reporting package issued by an entity' as described), such as a separate risk report, that is available to users of the financial statements on the same terms, at the same time and for as long as the financial statements.

56 Regarding the requirement to allow incorporation by reference only when it 'makes the annual report as a whole more understandable', EFRAG assesses that it may not be practical to implement in an IFRS Standard and it would step outside of the boundaries of the IASB's mandate. In EFRAG's view, the IASB should clarify the reasons for addressing the understandability of the annual report as a whole, as it includes sections that are not in the scope of IFRS Standards.

Examples of specific situations where cross-references are used

57 EFRAG has heard that it is not uncommon in some jurisdictions to use cross-references for items such as information on risks or management remuneration as the local regulations require detailed statements on these topics. Disclosure requirements in these jurisdictions may be more extensive and may overlap with the requirements in IFRS Standards. The management remuneration disclosures may be required in the management commentary section of the annual report or in a separate remuneration report.

Questions to Constituents

58 Is the use of cross-referencing, i.e. including IFRS information in the financial statements by cross-reference, common in your jurisdiction? If yes, for what types of information? If not, why not? Please explain.

59 Is the guidance proposed by the IASB to allow cross-references within the annual report expected to conflict with local regulations? Please explain.

Providing information identified as non-IFRS within the financial statements

Question 6

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

Question 7

Do you think the IASB should prohibit the inclusion of any specific types of additional information in the financial statements (for example information that is inconsistent with IFRS Standards)? If so, which additional information, and why?

Notes to constituents

60 *The IASB refers to three categories of information in financial statements:*

(a) *Category A: information specifically required by IFRS Standards;*

(b) *Category B: additional information necessary to comply with IFRS Standards (paragraphs 15, 17(c), 55, 85 and 112(c) of IAS 1); and*

(c) *Category C: additional information that is not in Category A or Category B. This includes information that is inconsistent with IFRS Standards and some non-financial information.*

61 *The IASB refers to 'non-IFRS information' as being limited to Category C above. The IASB observes that, because Category B can be interpreted so broadly, it could be difficult to determine whether some information falls within Category B or within Category C. Therefore, prohibiting the disclosure of additional information in Category C might be difficult to operationalise. The IASB also observes that it has previously concluded that prohibiting entities from disclosing immaterial information, which would fall under Category C, is not operational.*

62 *When non-IFRS information is included in the financial statements, a general disclosure standard should require that an entity:*

(a) *identify clearly such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited;*

(b) *provide a list of such information, together with the statement of compliance with IFRS Standards; and*

(c) *explain why the information is useful and has been included in the financial statements. For information to be useful it must comply with the qualitative characteristics of financial information, i.e. it must be relevant and faithfully represented.*

63 *The IASB proposes that additional information provided in accordance with the requirements of IAS 1 (i.e. Category B information) should not be separately identified.*

64 *The IASB does not discuss whether to prohibit any specific Category C information from being included in the financial statements, or place any further restrictions on its inclusion. The IASB observes that it might want to consider additional restrictions applicable to information that is inconsistent with IFRS Standards, for example because it is measured on a different basis. The IASB seeks feedback on whether*

to prohibit or restrict the inclusion in the financial statements of any specific types of information.

65 *Section 5 of the DP discusses whether a general disclosure standard should describe how performance measures can be fairly presented in the financial statements. If information identified as non-IFRS information also fits the description of a performance measure, then the discussion in section 5 of the DP will also apply.*

EFRAG's response

EFRAG considers that the proposed guidance could lead to clutter if not better targeted.

In EFRAG's view, the primary focus for the guidance should be on non-IFRS information that is inconsistent or in conflict with IFRS information which should not be allowed unless it is regulation. The proposed guidance would not be appropriate for non-financial measures or alternative performance measures that are presented in accordance with IFRS Standards.

Consequently, EFRAG considers that the IASB should not restrict the use of non-IFRS information, other than information that is inconsistent or in conflict with IFRS Standards, as it may limit the ability of an entity to provide information that is relevant to users or conflict with regulatory requirements, and thus would not be operational.

Providing information identified as non-IFRS within the financial statements

66 EFRAG suggests that the IASB should better articulate the objective of the guidance and target more narrowly the categories of non-IFRS information to which the guidance should apply. Otherwise, the proposal could add complexity and result in disclosures that are not useful.

67 The requirement to always explain why the non-IFRS information is useful and has been included in the financial statements could result in boilerplate disclosures, especially in the cases of non-financial measures. For example, many entities are required by law to disclose the number of employees at the end of the reporting period and requiring them to explain why they consider this information is useful, could result in unnecessary clutter in the financial statements.

68 In EFRAG's views, the primary focus for the guidance should be on non-IFRS information that is inconsistent or in conflict with IFRS information. EFRAG considers that financial information prepared and presented in accordance with IFRS Standards is of primary relevance, and that relevance may be undermined if inconsistent or contradicting non-IFRS information is presented together with IFRS information in the financial statements. However, prohibiting the use of such information may not be practical as it may conflict with regulatory requirements, EFRAG considers that the IASB should provide guidance restricting the use of such information in the financial statements.

69 EFRAG considers that the IASB should not restrict the use of non-IFRS information other than described in paragraph 68, above, as it may limit the ability of an entity to provide information that is relevant to users or conflict with regulatory requirements, and thus would not be operational. EFRAG considers that the distinction between Categories B and C is not always clear, given the broad principle contained in paragraph 112(c) of IAS 1 that the notes shall present 'information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them'. If these categories are retained, EFRAG considers that the boundaries of these categories should be better explained and clarified.

70 In EFRAG's view, the IASB should also better explain the relationship between non-IFRS information (analysed in this section) and the discussion on 'performance

measures' (discussed in the following section) in case information identified as 'non-IFRS' information, also meets the description of a performance measure.

71 The IASB could restructure the sections of the DP, so that non-IFRS information and performance measures are addressed together as separate discussion of the topics may create confusion.

Prohibiting specific non-IFRS information in the financial statements

72 Except as mentioned above, EFRAG does not consider that specific types of non-IFRS information should be prohibited from being included in the financial statements, as this would prevent entities from 'telling their own story'.

SECTION 5 - Use of performance measures in the financial statements

Question 8

Do you agree with the IASB's preliminary view 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:

(a) the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and

(b) the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.

Why or why not? If you do not agree, what alternative action do you suggest, and why?

Do you agree with the IASB's preliminary view that it should 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 of the DP? Why or why not? If you do not agree, what alternative action do you suggest, and why?

Should the IASB prohibit the use of other terms to describe unusual and infrequently occurring items, for example those discussed in paragraph 5.27 of the DP?

Are there any other issues or requirements that the IASB should consider in addition to those stated in paragraph 5.28 of the DP 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 IASB's *Primary Financial Statements* project.

Question 9

Do you agree with the IASB's preliminary view that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34 of the DP? Why or why not? If you do not agree, what alternative action do you suggest, and why?

Notes to constituents

Presentation of EBIT and EBITDA and depiction of unusual or infrequently occurring items in the statement(s) of financial performance

73 *The IASB is taking the opportunity of this public consultation to seek feedback on two specific issues considered by the IASB during its discussions about performance measures for the purposes of informing its Primary Financial Statements project and supplementing its research in that project.*

74 *The DP clarifies that, if an entity reports EBITDA and/or EBIT in accordance with the requirements in paragraphs 85–85B of IAS 1 for using subtotals:*

(a) *presenting EBITDA as a subtotal in the statement(s) of financial performance can provide a fair presentation if an entity presents an analysis of expenses on the basis of their nature. However, presenting EBITDA as a subtotal in the statement(s) of financial performance is unlikely to achieve a fair presentation if an entity presents an analysis of expenses on the basis of their function. Nevertheless, an entity using a function of expense method might still disclose EBITDA, for example in the notes; and*

(b) *EBIT is usually a subtotal that fits within both the nature of expense and the function of expense method.*

75 The IASB's preliminary view is that they will allow entities to present separately unusual or infrequently occurring items. The IASB is also of the preliminary view that a general disclosure standard should explain when and how items can be presented in the statement(s) of financial performance as unusual and/or infrequently occurring. The starting point for these requirements could be the IASB/FASB staff draft developed in July 2010 in the IASB's previous Financial Statement Presentation project. However, the IASB could develop these further by considering the feedback it receives on the questions in this DP and the issues suggested by stakeholders, which are included in paragraph 5.28 of the DP.

76 The IASB did not form any preliminary views on whether to prohibit the use of particular terms used to describe unusual and infrequently occurring items because some terms, such as 'non-recurring' or 'special', are less helpful for users of financial statements if an entity does not also explain why items are classified that way (i.e. the term itself is unclear as to whether the items are unusual, or infrequent, or both). Furthermore, these terms might be interpreted in a similar way to the term 'extraordinary items', whose use is prohibited by paragraph IAS 1. In addition, terms like 'one-off' suggest that the items can never recur, which is difficult to substantiate.

General requirements for fair presentation of performance measures

77 For the purposes of the DP, the IASB refers to the term 'performance measure' as 'any summary financial measure of an entity's financial performance, financial position or cash flows'.

78 The IASB provides guidance when performance measures are used. The guidance applies to all performance measures in the financial statements, whether presented in, or disclosed adjacent to, the primary financial statements or disclosed in the notes. The IASB also considers that it should develop those requirements further as set out below.

79 The IASB's preliminary view is that these requirements should require a performance measure to be:

(a) *displayed with equal or less prominence than the line items, subtotals and totals in the primary financial statements required by IFRS Standards;*

(b) *reconciled to the most directly comparable measures specified in IFRS Standards to enable users of financial statements to see how the performance measure has been calculated;*

(c) *accompanied by an explanation in the notes to the financial statements of:*

    (i) *how the performance measure provides relevant information about an entity's financial position, financial performance or cash flows;*

    (ii) *why the adjustments to the most directly comparable measure specified in IFRS Standards (see paragraph (b)) have been made;*

    (iii) *if the reconciliation in (b) is not possible, why not; and*

    (iv) *any other information necessary to aid understanding of the measure (such an explanation would mean that entities would have to provide their rationale for making adjustments as well as a list of all adjustments).*

(d) *neutral, free from error and clearly labelled so it is not misleading;*

(e) *accompanied by comparative information for all periods presented in the financial statements;*

(f) *classified, measured and presented consistently to enable comparisons to be made over time, except when IFRS Standards require a change in presentation, as stated in paragraph 45 of IAS 1; and*

(g) *presented in a way that makes it clear whether the performance measure forms part of the financial statements and whether it is has been audited.*

EFRAG's response

EFRAG reiterates its concerns that some aspects of performance measures are discussed in a Principles of Disclosures DP whereas the main discussion on performance reporting will be part of the *Primary Financial Statements* project.

EFRAG is of the view that the use of metrics such as EBIT or EBITDA would better be addressed comprehensively as part of the *Primary Financial Statements* research project. EFRAG observes that there is guidance in IAS 1 to be used by entities to identify which subtotals they shall present when it is relevant to an understanding of an entity's financial position and performance.

EFRAG supports the provision of guidance on the classification of items as unusual or infrequently occurring, and associated disclosures, considering their widespread use. However, EFRAG considers that the discussion should not be restricted to unusual or infrequently occurring items but should consider more broadly why adjustments are made to reporting performance. Such adjustments are not only linked to the frequency or amounts of transactions but relate to other issues including underlying performance and organic growth.

Finally, EFRAG agrees that a general disclosure standard should provide guidance as to how performance measures can be fairly presented in financial statements and agrees with the qualitative requirements identified in the DP. However, EFRAG is concerned that IASB has not targeted more narrowly the performance measures to which the requirements should apply.

Presentation of EBIT and EBITDA

80 EFRAG understands that the IASB is using the DP as an opportunity to obtain early feedback on some aspects of its *Primary Financial Statements* research project. As mentioned in our response to questions in section 1 of the DP, EFRAG questions whether this piecemeal approach to performance reporting is the most efficient way to collect input from constituents. Further, EFRAG is concerned that the proposed piecemeal discussion on EBIT/EBITDA is unrelated to the main objective of the DP to provide principles of disclosure and has the potential to distract information from the primary purpose of the DP.

81 In EFRAG's view, the principle in paragraphs 55A and 85A of IAS 1 that 'the subtotals shall be comprised of line items made up of amounts recognised and measured in accordance with IFRS Standards' can be used by entities to identify which subtotals they shall present when it is relevant to an understanding of an entity's financial position and performance. Therefore, EFRAG does not see the reason why the IASB should clarify how the presentation of EBIT and EBITDA in the statement(s) of financial performance depend on the entity's decision to disclose expenses by nature or by function in order to comply with IFRS Standards.

Depiction of unusual or infrequently occurring items in the statement(s) of financial performance

82 EFRAG considers that the discussion should not be restricted to unusual or infrequently occurring items but should consider more broadly adjustments to performance reporting, rather than limiting the discussion to those items that are linked to the frequency or recurrence. That is, the discussion should address issues such as the presentation of underlying performance and the impact of organic growth. EFRAG encourages the IASB to reach out to constituents, as part of its *Primary Financial Statements* project to understand what adjustments are made and why.

83 EFRAG has received feedback from users that they would like to have information about events and transactions that are genuinely unusual or infrequent, because it enables them to identify the recurring/sustainable information and use those to make assessments about the future. In EFRAG's view, if possible, this request should be satisfied.

84 EFRAG generally considers that defining unusual or infrequently occurring items may be desirable, in principle, to achieve consistency but would not be easy to achieve in practice as there are many factors involved and the way each company defines them depends heavily on the facts and circumstances. However, considering their widespread use, some guidance or principles of how they should be identified and disclosed is necessary.

General requirements for all performance measures in the financial statements

85 EFRAG acknowledges that IFRS Standards define few performance measures and that performance measures, other than those defined in IFRS Standards, are widely used. Concerns have been raised by users about the consistency and comparability of such information and the adequacy of disclosures.

86 EFRAG agrees that, when performance measures, other than measures defined in IFRS Standards, are presented in the primary financial statements or in the notes, they should be clearly defined and explained by preparers, presented consistently over time and reconciled to information required by IFRS Standards. EFRAG considers that it is important that users of financial information can understand all the measures used, the reason for their use and their calculation or determination.

87 EFRAG agrees with the proposals identified by the IASB, which aim to reduce the risk of investors being misled by performance measures reporting. EFRAG notes that the IASB guidelines are similar in the areas of focus (transparency, comparability, consistency and no undue prominence) to existing guidelines from major securities regulatory organisations, such as the European Securities Markets Authority (ESMA). We note that the ESMA guidance was intended for performance measures disclosed outside the financial statements.

88 EFRAG is concerned that the definition of performance measures is overly broad and may significantly increase the scope of the requirements and hence the volume of disclosures. For example, the proposed definition would cover a range of common and well-understood measures such as:

(a) measures defined in IFRS Standards; and

(b) line items (including totals and sub-totals) presented on the face of the statement of financial position, statement(s) of financial performance, statement of changes in equity or statement of cash flows that are not specifically defined by IFRS Standards.

SECTION 6 - Disclosure of accounting policies

Question 10

The IASB's preliminary views are that:

(a) a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16 of the DP; and

(b) the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):

   (i) the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24 of the DP; and

   (ii) the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate?

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

Do you agree with the IASB'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, please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c) of the DP) and give your reasoning.

Notes to constituents

Determining which accounting policies should be disclosed

89 *The IASB suggests that the objective of accounting policy disclosures is to provide an entity-specific description of accounting policies that:*

(a) *have been applied by the entity in preparing the financial statements; and*

(b) *are necessary for an understanding of the financial statements.*

90 *In addition, the IASB describes three categories of accounting policies:*

(a) *Category 1: accounting policies that are always necessary for understanding information in the financial statements, subject only to materiality (such as those that have changed, that provide different alternatives, that were developed by the entity or that require significant judgement and/or assumptions) and relate to material items, transactions or events;*

(b) *Category 2: accounting policies that are not in category 1, but for which disclosure would be necessary for users to understand the information in the financial statements (that is, those that relate to items, transactions or events that are material to the financial statements); and*

(c) *Category 3: any other accounting policies used by an entity in preparing financial statements and that are not part of the other categories.*

91 *In relation to these categories, the IASB proposes:*

(a) *that only accounting policies necessary for an understanding of the financial statements need to be disclosed subject to materiality (Categories 1 and 2); and*

(b) *that an entity is not required to disclose any other accounting policies (Category 3).*

Location of disclosures on accounting policies

92 *The IASB proposes that if an entity chooses to disclose Category 3 accounting policies, it could consider the following ways to distinguish them from its significant accounting policies:*

(a) *present the additional accounting policies in a separate note or disclose them together at the end of the accounting policies note; or*

(b) *present additional accounting policies outside the financial statements and provide a cross-reference to their location, for example they could be presented in an appendix to the financial statements, in another part of the annual report, or on the entity's website.*

93 *The IASB also proposes to clarify that accounting policy disclosures can be presented together in a single note, separately in the note containing the information to which it relates; or a combination of both. Whichever alternative an entity selects, the IASB clarifies that an entity should clearly identify the location of its Category 1 accounting policies, for example by describing where they are disclosed in the index of notes or on the content page of the financial statements.*

Location of significant accounting judgements, estimates and assumptions

94 *The IASB clarifies that, to make an entity's accounting policy disclosures more useful for users of financial statements, disclosures about significant judgements and assumptions used in applying an accounting policy should be made adjacent to the disclosure of that accounting policy, unless the entity judges that another location would improve the understandability of the financial statements.*

EFRAG's response

EFRAG considers that guidance about disclosure of accounting policies and on disclosures on significant judgements and assumptions is useful but should not be overly prescriptive as to the form and location of disclosures so as to allow necessary flexibility to determine the level of disclosure that most appropriately reflects users' needs. Such guidance could be included in a general disclosure standard.

EFRAG is of the view that the categorisation of accounting policies, as proposed in the DP, needs further clarifications and that materiality should always be considered. The focus should be on Category 2, where judgment is most needed.

EFRAG considers that, as a matter of principle, the IASB should not provide guidance on information that is not required by IAS 1 that is information referred to as Category 3, because it is not necessary for an understanding of the financial statements.

Determining which accounting policies should be disclosed

95 In its response to the IASB's Exposure Draft ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)*, EFRAG assessed that disclosure of accounting policies as a mere summary of an IFRS Standard is generally not useful. EFRAG observed that useful disclosure provides insights into how the entity has exercised judgement in selecting and applying accounting policies.

96 EFRAG acknowledges that some are of the view that it should be possible to read financial statements as a self-contained document, i.e. including all applied accounting policies, regardless of whether they imply judgement or options. However, in EFRAG's opinion, merely reproducing parts of IFRS Standards generally little or no information value.

97 EFRAG is of the view that the boundaries of categories of accounting policy disclosures, as in the DP, could be clarified and the guidance should focus on category 2, where judgment is most needed.

Location of accounting policy disclosures and form of the guidance

98 EFRAG considers that the IASB should not be over-prescriptive about the location of accounting policies and significant judgements and assumptions disclosures, so as to ensure that a preparer has the necessary flexibility to determine the level of disclosure that most appropriately reflects the needs of its users.

99 In that regard, EFRAG observes that the proposals in the DP are consistent with paragraphs 113-114 of IAS 1, as revised in 2014, which require entities to consider a 'systematic ordering or grouping of the notes' and clarifies that entities are allowed to group accounting policies together with the other disclosures that relate to them. EFRAG recommends the IASB to clarify how the proposals differ from the existing guidance.

100 In EFRAG's view, the IASB should not discuss the disclosure of information that is not required by IAS 1 (that is information classified as category 3, which is information that is not necessary for an understanding of the financial statements). We also observe that the alternative to allow, for such information, cross-reference to information that is presented on the entity's public website, seems inconsistent with the proposal in the chapter *Location of information* to restrict cross-references to information disclosed in the entity's annual report.

101 Finally, EFRAG considers that the guidance on accounting policy disclosures and on disclosures on significant judgements and assumptions could be included in a general disclosure standard. EFRAG observes that IAS 1 already include similar guidance.

SECTION 7 - Centralised disclosure objectives

Question 11

Do you agree with the IASB's preliminary view that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes? Why or why not? If you do not agree, what alternative do you suggest, and why?

Question 12

Which of Method A (focussing on assets, liabilities, equity, income and expenses) or Method B (focussing on information about and entity's activities) do you support as the basis for developing centralised disclosure requirements and why?

Question 13

Do you think that the IASB 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?

Notes to constituents

102 *The last two chapters of the DP seek views as to actions that the IASB should take as a standard setter. Chapter 7 discusses:*

(a) *whether the IASB should continue developing objectives for disclosure requirements on a standard-by-standard basis as at present or, rather, try to develop a 'central set of disclosure objectives' to provide a basis for more unified disclosure objectives and requirements across IFRS Standards; and*

(b) *whether the IASB should consider having a single Standard (or a set of Standards) that covers all disclosures in the financial statements.*

Developing centralised disclosure objectives

103 *To develop a central set of disclosure objectives, the IASB could consider the following alternatives:*

(a) *focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or*

(b) *focusing on information about an entity's activities to better reflect the way users of financial statements assess prospects for future cash inflows and the performance of management (Method B); or*

(c) *a combination of both.*

104 *Under Method A, the first step is to identify what types of information would be useful to the primary users of financial statements about an entity's assets, liabilities, equity, income and expenses. Information could be grouped into types in many different ways. Without forming any preliminary views, the DP specifies the following types of information that could be used as the basis for developing centralised disclosure objectives:*

(a) *information about the reporting entity;*

(b) *information about the methods, assumptions and judgements;*

(c) *information about items included in the primary financial statements;*

(d) *information about unrecognised items;*

(e) *information about the risks and other uncertainties (including measurement uncertainty);*

(f) *information related to management's stewardship; and*

(g) *information about events after the reporting period.*

105 Under Method B, centralised disclosure objectives would be developed by the IASB on the basis of an entity's main activities with the aim of providing information that helps users of financial statements assess both prospects for future net cash inflows and management's stewardship. The following activities of an entity are identified:

(a) *operating and investing activities, including information about operating capacity, operating segments and business combinations;*

(b) *financing activities, including information about liquidity and solvency, capital structure and capital management;*

(c) *discontinued operations; and*

(d) *taxation.*

106 It is important to note that the IASB has not discussed the development or application of Methods A and B, or other methods, in detail. The description of the methods is only intended to generate discussion about how centralised disclosure objectives might be developed, rather than to provide a comprehensive explanation about how these methods would be applied by the IASB.

107 Section 8 of the DP and the Appendices provide an illustration of developing such centralised disclosure objectives based on method A and method B.

Considering a single Standard, or a set of Standards, for disclosures

108 The IASB has not discussed in detail, at this stage, the possibility of locating all disclosure objectives and disclosure requirements in IFRS Standards within a single Standard or set of Standards. Such a Standard could also incorporate the principles of disclosure discussed in the DP. The IASB might revisit the possibility of a single Standard for disclosures after it has considered the feedback received on this Discussion Paper.

EFRAG's response

EFRAG supports the objective to further explore whether a more holistic and unified approach is achievable in developing disclosure objectives. However, EFRAG considers that, if expressed too generically, disclosure objectives would not be helpful.

EFRAG considers that:

- **The IASB is more familiar with Method A as it normally develops disclosure objectives and requirements in IFRS Standards on the basis of the types of information useful to users of the financial statements.**
- **Method B has the potential to provide more insight into the way information is used by users although it may be more complex to implement. Further work would be needed to understand how IFRS Standards would actually be developed using this approach.**

However, as the IASB has not discussed in detail the development or application of Method B, we are unable to assess its practicality and outcomes.

Lastly, EFRAG does not support grouping all disclosure requirements in a single standard, but acknowledges that, in some cases, it may be useful to cover disclosures on related topics in a single standard.

Developing a central set of disclosure objectives

109 EFRAG supports the objective of exploring whether a more holistic and unified approach is achievable in developing disclosure objectives.

110 As mentioned in our response to section 1, EFRAG considers that one of the reasons for unsatisfactory disclosure requirements is that these requirements have largely been developed on a standard-by-standard basis without an overall underlying basis; resulting in the lack of a unified and consistent approach.

111 EFRAG agrees that formalising an overall approach will make the process more transparent and will provide a common basis for developing disclosure objectives and requirements, leading to greater consistency between IFRS Standards.

112 EFRAG observes that more recent IFRS Standards (from IFRS 2 *Share-based Payments* onward) have included an overall objective of the disclosure requirements. However, these objectives have been developed in isolation, as part of the discussions on each standard, and the relationships between the disclosure requirements in different standards (including the links between IAS 1 and other IFRS Standards) have not always been considered.

113 Developing disclosure objectives more holistically could be done, as proposed by the IASB, by using as a basis a single central set of disclosure objectives (to be contained in a general standard on disclosures), supplemented by more specific objectives developed at the level of each standard.

114 However, as explained in EFRAG's response to an earlier question, in order to develop centralised disclosure objectives for the notes, the IASB should first take a step back and articulate more clearly the boundaries of the notes.

Proposed approaches to develop a central set of disclosure objectives

115 EFRAG observes that Method A will be easier to implement as the IASB is familiar with developing disclosure objectives and requirements in individual IFRS Standards on the basis of the types of information useful to users of the financial statements about the items within the scope of the IFRS Standard.

116 The approach will also be better aligned with the proposed description of the role of the notes, which is to 'explain and expand' the information contained in the primary financial statements. EFRAG observes that, with the exception of the statement of cash flows, the primary financial statements are not based on a distinction between operating, financing and investing activities.

117 EFRAG considers that Method B would provide more insight into the way information is used by users but could increase complexity for the following reasons:

(a) it is based on the underlying assumption that there is a 'common way' for users, across all industries, to 'assess the prospects for future net cash inflows and management's stewardship' that is based on the distinction between operating, financing and investing activities. EFRAG is not persuaded that this always holds true and the discussion around the usefulness of the information of statement of cash flows in the financial industry has provided specific evidence to the contrary;

(b) it assumes that there is a common understanding of what operating, financing and investing activities mean for all information disclosed (including for the statement of financial position and statement(s) of performance items and other disclosures); and

(c) the feasibility and relevance of Method B could be reconsidered after the research on *Primary Financial Statements* currently undertaken by the IASB is completed.

118 However, as the IASB has not discussed in detail the development or application of Method B, we are unable to assess its practicality and the effectiveness of its outcomes.

119 Furthermore, EFRAG observes that both Methods A and B are in the early stages of development and have not been discussed in detail, as the IASB will first consider the feedback received on the DP about how centralised disclosure objectives might best be developed before developing them further. An important objective of the disclosure initiative is to improve the wording of the current disclosure requirements, in particular in the older IFRS Standards. EFRAG considers that this standards-level review of disclosures should not be delayed significantly due to the development of a new approach.

Considering a single standard, or a set of standards, for disclosures

120 Although having a single standard for disclosures may have some advantages (for instance by enabling disclosure requirements to be arranged by topic rather than by standard, avoid duplications and highlight relationships between disclosure requirements), EFRAG considers that the following drawbacks will outweigh such advantages:

(a) it may make it difficult for preparers to see how the disclosure requirements relate to the recognition and measurement requirements;

(b) it would represent a fundamental change to existing IFRS Standards which might have unintended consequences; and

(c) it could lead to overlooking the specific nature of some transactions when developing disclosure requirements and consequently omit useful information that particular to the type of transaction.

121 EFRAG is therefore not in favour of grouping all disclosure requirements in a single standard. However, EFRAG acknowledges that in some cases, it may be useful to cover disclosures on related topics in a single standard. An example of this is provided by IFRS 12 *Disclosure of Interests in Other Entities* which contains comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

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

Question 14

Do you have any comments on the NZASB staff's approach to developing the disclosure objectives and requirements in IFRS Standards? Do you think that the development of such an approach would encourage the provision of enhanced disclosures by entities?

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

Notes to constituents

122 The DP describes an approach that has been developed by the staff of the New Zealand Accounting Standards Board (NZASB) of how centralised disclosure objectives and requirements in standards might be developed using Method A. The effects are illustrated based on the disclosure requirements in IAS 16 Property, Plant and Equipment and IFRS 3 Business Combinations.

123 The main features of the proposed approach on which feedback is sought are:

(a) *the inclusion of disclosure objectives, comprising an overall disclosure objective for each standard and more specific ones for each type of information required to meet that overall disclosure objective;*

(b) *the division of disclosure requirements into two tiers:*

(i) *a level of summary information, that all entities would be required to provide subject only to materiality, which would give an overall picture of the effect of the item or transaction; and*

(ii) *a level of additional information, which an entity would consider disclosing if that information is necessary to meet the overall disclosure objective in the standard.*

124 The IASB is not seeking feedback on the detailed redrafting of the disclosure requirements and objectives included in the NZASB staff's two examples, but rather on the applicability of the proposed approach. The feedback will inform the IASB's

EFRAG's response

EFRAG supports the proposed approach on drafting disclosure requirements. EFRAG considers in particular that the proposed two-tiered approach can strike a balance between comparability and entity-specific relevance. However, EFRAG is of the view that:

(a) **the boundary between 'summary' and 'additional' information needs to be clarified to make the approach operational; and**

(b) **the disclosure objectives should be formulated in a less generic way than in the illustrative application to the disclosure requirements in IAS 16 and IFRS 3**

EFRAG does not provide further feedback on these illustrative examples.

125 EFRAG supports the direction of the proposals on drafting disclosure requirements.

126 In the EFRAG/ANC/FRC DP, some general principles were provided that standard setters should always apply when drafting disclosure requirements. EFRAG observes that the NZASB staff's approach achieves many of these principles.

127 EFRAG considers in particular that the proposed two-tiered approach can strike a balance between comparability (with the summary information required in all instances subject only to materiality) and relevance (with the 'additional information').

128 Although EFRAG does not intend to provide detailed feedback on the illustrative redrafting of the disclosure requirements in IAS 16 and IFRS 3, EFRAG observes that the objectives set for the disclosures are drafted in very generic and similar terms. EFRAG considers that, to be useful, clearer objectives must be set at the standards level.

129 Furthermore, the boundary between 'summary' and 'additional' information would need to be further clarified to make the approach operational.

130 In addition, EFRAG observes that different levels of disclosure requirements are already applied in IFRS Standards depending on whether the entity has (or is in the process of issuing) debt or equity instruments that are traded in a public market, more specifically in IFRS 8 *Operating Segments* and IAS 33 *Earnings per Share*. EFRAG recommends the IASB to consider whether this practice in standard setting should be applied in a more principles-based way or whether the IASB should describe the specific conditions in which such a practice is allowed.

Summary of questions to constituents

131 The table below provides a summary, for the convenience of the respondents, of the questions raised by the IASB to constituents. Additional questions raised by EFRAG to constituents are included at the end of the table.

Questions raised by the IASB in the DP	**After paragraph**
Question 1	1
Paragraphs 1.5–1.8 of the DP describe the disclosure problem and provide and explanation of its causes. 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? 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?	
Question 2	1
Are there any other disclosure issues that the IASB 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?	
Question 3	14
Do you agree that the IASB should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not? Do you agree with the principles listed in paragraph 2.6 of the DP? Why or why not? If not, what alternative(s) do you suggest, and why? 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? If you support the issuance of non-mandatory guidance, please specify the form of non-mandatory guidance you suggest and give your reasoning. 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, please specify the form of non-mandatory guidance you suggest and give your reasoning.	
Question 4	30
The IASB's preliminary view is that a general disclosure standard should: (a) specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows; (b) describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24 of the DP; (c) describe the role of the notes as set out in paragraph 3.28 of the DP, as well as provide examples of further explanation and supplementary information, as referred to in paragraphs 3.26–3.27 of the DP; and (d) 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 of the DP?	

Questions raised by the IASB in the DP **After paragraph**

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

(e) 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

(f) 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 IASB's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

Question 5 43

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

Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4 of the DP), 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) of the DP?

Question 6 59

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

Question 7 59

Do you think the IASB should prohibit the inclusion of any specific types of additional information in the financial statements (for example information that is inconsistent with IFRS Standards)? If so, which additional information, and why?

Question 8 71

Do you agree with the IASB's preliminary view 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:

(g) the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and

(h) the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.

Why or why not? If you do not agree, what alternative action do you suggest, and why?

After paragraph

Questions raised by the IASB in the DP

Do you agree with the IASB's preliminary view that it should 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 of the DP? Why or why not? If you do not agree, what alternative action do you suggest, and why?

Should the IASB prohibit the use of other terms to describe unusual and infrequently occurring items, for example those discussed in paragraph 5.27 of the DP?

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

Question 9 71

Do you agree with the IASB's preliminary view that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34 of the DP? Why or why not? If you do not agree, what alternative action do you suggest, and why?

Question 10 87

The IASB's preliminary views are that:

(a) a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16 of the DP; and

(b) the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):

  (i) the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24 of the DP; and

  (ii) the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate?

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

Do you agree with the IASB'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, please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c) of the DP) and give your reasoning.

Question 11 99

Do you agree with the IASB's preliminary view that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes? Why or why not? If you do not agree, what alternative do you suggest, and why?

99

Questions raised by the IASB in the DP	**After paragraph**
Question 12	
Which of Method A (focussing on assets, liabilities, equity, income and expenses) or Method B (focussing on information about and entity's activities) do you support as the basis for developing centralised disclosure requirements and why?	99
Question 13	
Do you think that the IASB 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?	
Question 14	120
Do you have any comments on the NZASB staff's approach to developing the disclosure objectives and requirements in IFRS Standards? Do you think that the development of such an approach would encourage the provision of enhanced disclosures by entities?	
Do you think the IASB should consider the NZASB staff's approach (or aspects of the approach) in its *Standards-level Review of Disclosures* Project? Why or why not?	

Additional questions raised by EFRAG	**Paragraph**
Do you agree with EFRAG's suggestion that principles of effective communication and guidance on formatting be included in the form of illustrative examples or implementation guidance in a general disclosure standard? If so, please explain how you believe a non-mandatory form of guidance may result in positive changes in behaviour. If not, please explain your preferred form of guidance.	30
Is the use of cross-referencing, i.e. including IFRS information in the financial statements by cross-reference, common in your jurisdiction? If yes, for what types of information? If not, why not? Please explain	58
Is the guidance proposed by the IASB to allow cross-references within the annual report expected to conflict with local regulations? Please explain.	59