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Disclosure Initiative - Principles of Disclosure Issues paper

Objective

- 1 The objective of this session is to obtain EFRAG TEG-CFSS views on the IASB decisions on the next steps of the project *Disclosure Initiative - Principles of Disclosure*, which will be discussed by the ASAF at its April 2018 meeting.

Background

- 2 The Discussion Paper *Disclosure Initiative - Principles of Disclosure* ('the IASB DP') was issued by the IASB on 30 March 2017 and the comment period ended on 2 October 2017. On 12 October 2017, EFRAG issued its comment letter in response to the IASB DP.
- 3 In its comment letter, EFRAG:
 - (a) supported the objectives of the IASB's Principles of Disclosure project;
 - (b) agreed with the description of the 'disclosure problem' insofar as it is acknowledged that the problem is multifaceted, includes behavioural aspects and that the requirements in IFRS Standards are not the only root cause;
 - (c) considered that, in the next steps of the project, a high priority should be given by the IASB to a review of standards-level requirements, which should aim to identify and remove any disclosure requirements that are disproportionate or redundant; and
 - (d) regretted that a number of other issues were not addressed in greater depth, in particular the boundaries of the financial statements (i.e. which information should be provided in financial statements and which information belongs outside financial statements) and the effects of technology on financial reporting.
- 4 EFRAG TEG-CFSS discussed the preliminary high-level feedback the IASB staff has prepared on the IASB DP at its November 2017 meeting.
- 5 In addition to this issues paper, agenda papers for this session are:
 - (a) 08-02 ASAF AP 2A – IASB Decisions and input sought from ASAF members
 - (b) 08-04 ASAF AP 2B - Cover paper;
 - (c) 08-05 ASAF AP 2C - Next steps - prioritisation of DP topics; and
 - (d) 08-06 ASAF AP 2D - Next steps - the disclosure problem.

Summary of the feedback received by the IASB

- 6 At its February 2018 meeting, the IASB discussed the feedback received from respondents in response to the IASB DP which is summarised below.

Description of the disclosure problem

- 7 Most respondents broadly agreed with the disclosure problem as described in the Discussion Paper. Also, many respondents suggested to give priority to a standard-level review of existing disclosure requirements.
- 8 However, some respondents attributed more or less weight to different elements of the problem and some respondents identified additional causes of the problem.

Principles of effective communication

- 9 Most respondents broadly agreed with the IASB developing principles of effective communication, and with the seven principles described in the DP.
- 10 Some respondents requested further clarification on the principles described and suggested additional principles.
- 11 Respondents expressed mixed views as to whether the IASB should develop the principles as mandatory requirements or non-mandatory guidance and the best form for any non-mandatory guidance.

Role of the primary financial statements ('PFS') and of the notes

- 12 Respondents provided relatively few comments on this section of the DP.
- 13 Most respondents that provided a view agreed that it would be helpful for the IASB to provide guidance about the roles of the different components of the financial statements. Some considered that the guidance in IAS 1 *Presentation of Financial Statements* is sufficient.

Location of information

- 14 Most respondents agreed that IFRS information outside the financial statements and non-IFRS information inside the financial statements should be permitted in some circumstances.
- 15 However, those respondents (including EFRAG) advised the IASB to liaise with other parties such as national standard-setters, regulators and audit authorities to fully understand the potential implications of any requirements in this area.

Use of performance measures in the financial statements

- 16 Many respondents considered that the issues (presentation of EBIT and EBITDA; presentation of unusual items and fair presentation of performance measure) should be considered as part of the Primary Financial Statements project and not as part of the PoD one.

Disclosure of accounting policies

- 17 Many respondents supported the IASB developing guidance or requirements about which accounting policies to disclose.
- 18 However, consistent with EFRAG's views as expressed in its comment letter, many respondents expressed concerns about the approach suggested in the IASB DP. These respondents suggested that the IASB should instead focus any guidance on how an entity determines whether an accounting policy is material.

Centralised disclosure objectives

- 19 The IASB received mixed feedback that expressed confusion amongst respondents on whether the objectives should represent guidance for the Board in setting requirements or to preparers in applying them.
- 20 No strong views were on whether, when developing a central set of disclosure objectives, the IASB should use method A (focusing on the different types of information) or B (focusing on the use of information by users to assess prospects for future cash inflows and the performance of Management).

IASB tentative decisions

- 21 At its 21 March 2018 meeting, the IASB considered the feedback received and made a number of tentative decisions:

- (a) **Give priority to the following topics** that considered directly related to resolution of the main disclosure problem:

Description	Expected timeline
Develop Guidance for the IASB to use when drafting disclosure requirements	<ul style="list-style-type: none"> Bring analysis at May 2018 meeting Guidance to be available for testing on targeted Standard(s) in H2 2018
Standards-level review of disclosure requirements	<ul style="list-style-type: none"> Select target standard(s) and bring IASB staff analysis in May 2018 Apply the IASB guidance to the selected IFRS Standard(s) during H2 2018

- (i) The objective is to identify one or two IFRS Standards on which to test the drafting guidance.
- (ii) The development of the drafting guidance (elaborating on the NZASB proposed approach) could be done concurrently to the ‘testing’ in an iterative process.
- (iii) This is expected to materialise in exposure draft(s) proposing amendments to the amendments to the disclosure requirements of the test Standards.

- (b) **Conduct further work and research** on the following issues which are deemed helpful to help solve disclosure problem:

Description	Expected timeline
Location of information	<ul style="list-style-type: none"> Bring analysis at June 2018 meeting
Determine which accounting policies to disclose	
Effect of technology and digital reporting	<ul style="list-style-type: none"> Not specified
Materiality	<ul style="list-style-type: none"> Do not consider until Q2 2019

- (i) The IASB will consider materiality only when it has more information about the practical effect of recent publications such as *Practice Statement 2: Making Materiality Judgements* and *Better Communication in Financial Reporting: Making disclosures more meaningful*.

- (c) **Not further consider** the following topics as part of the Principles of Disclosure project:

Description	Expected timeline
Roles of the primary financial statements and the notes	<ul style="list-style-type: none"> Consider feedback as part of the PFS project
Presentation of EBIT and EBITDA, Fair presentation of performance measures, Unusual or infrequently occurring items performance	
Principles of effective communication	<ul style="list-style-type: none"> Not further developed
Centralised disclosure objectives	
Educational material	
Guidance on formatting in financial statement.	
Use of 'present' and 'disclose' in IFRS Standards	
Location of accounting policy disclosures	
Location of disclosure objectives and requirements in IFRS Standards	

EFRAG Secretariat's preliminary views

- 22 The EFRAG Secretariat agrees with the priority given to developing drafting guidance for the IASB and, first, testing it through a targeted Standards-level review of disclosure requirements. However, a comprehensive standard-level review is a critical element of the resolution of the disclosure problem and the IASB should not lose sight of the objective to develop a clear, effective, coherent and comprehensive but concise package of disclosure requirements. In that regard we understand that the IASB will decide whether to perform further Standards-level reviews on a broader scale in the light of feedback received on the 'test' IFRS Standards.
- 23 The EFRAG Secretariat also agree with addressing topics related to performance reporting as part of the PFS project. We would instead support further development of the principles of communication, which were largely supported by respondents. In this comment letter, EFRAG suggested further analysis to determine whether some of the proposed principles could be developed into requirements in a general disclosure standard and others be carried forward in illustrative examples or implementation guidance accompanying but not forming part of a general disclosure standard.
- 24 The EFRAG Secretariat also agrees with the decision not to further develop non-mandatory guidance on formatting as the effectiveness of such guidance is questionable.

Questions for EFRAG TEG-CFSS

- 25 Do EFRAG TEG-CFSS members have questions about the feedback received?
- 26 What are EFRAG TEG-CFSS members view on the IASB tentative decisions and next steps of the project?

Input sought from ASAF members on specific topics

- 27 The IASB staff is seeking specific input on two topics on which it was instructed by the IASB to conduct further research and analysis:
- (a) Location of information
 - (i) IFRS information outside the financial statement;
 - (ii) Non-IFRS information inside the financial statement; and
 - (b) Accounting policy disclosure.

Location of information - IFRS information outside the financial statements

- 28 Most respondents agreed with the ASB to not prohibit cross-references and to develop principles around their use. However, many respondents also raised concerns about:
- (a) Possible conflicts with local laws and regulation in different jurisdictions; and
 - (b) the reference to the 'annual report' which can mean different things in different jurisdictions as the basis for allowing cross references.
- 29 The IASB staff is seeking input on the following possible ways to address the concerns (see agenda paper 08-02 page 12):
- (a) use the term 'single document' instead of 'annual report';
 - (b) do not use a specific term to describe where IFRS information may be located. Instead develop principles about the location of IFRS information;
 - (c) permit the use of cross-referencing only if it does not conflict with local laws and regulations; and
 - (d) do not develop general requirements about IFRS information outside the financial statements. Instead, specify the disclosure requirements for which location outside the financial statements is permitted.
- 30 The IASB is essentially seeking views on the above potential 'solutions' and is looking for examples of local law or regulation that would need to be considered to address the cross-referencing problem.
- 31 Detailed questions raised to ASAF members are included in Agenda paper in 08-02, paper 13.

Non-IFRS information inside the financial statements

- 32 Many respondents agreed that the IASB should not prohibit any entity from including non-IFRS information that is useful to users.
- 33 However, some respondents raised concerns with the definition of non-IFRS information in the DP and in particular information described as Category C that is information that is neither specifically required by an IFRS Standard nor part of the additional information required by IAS 1 to achieve fair presentation. This may include information that is inconsistent with IFRS and some non-financial information.
- 34 The IASB staff is not making specific suggestions at this stage but is seeking input from ASAF members on
- (a) How to define non-IFRS information;
 - (b) Whether it is helpful that the IASB develop requirements about information that is not required to achieve a fair presentation (i.e. category C in the DP);
 - (c) Considering that entities are already presenting non-IFRS information in their financial statement, would the potential benefits of the IASB developing guidance in this area outweigh the risk of discouraging entities from presenting useful voluntary information.
- 35 Detailed questions raised to ASAF members are included in Agenda paper in 08-02, paper 21.

Accounting policy disclosures

- 36 Many respondents supported the development of a guidance about which accounting policies to disclose based on materiality basis.
- 37 However, they did not support the characterisation proposed in the DP which distinguished:
- (a) *Category 1*—accounting policies that are always necessary for understanding information in the financial statements, and relate to material items, transactions or events:
 - (b) *Category 2* - accounting policies that relate to items, transactions or events that are material to the financial statements, either because of the amounts involved or because of their nature; and
 - (c) *Category 3*—any other accounting policies.
- 38 Many respondents considered that the characterisation was unhelpful and that the focus should instead be on providing guidance to assess when accounting policies are material
- 39 The IASB staff is essentially asking ASAF members if it has already done enough on materiality in general (amendments to IAS 1, Practice Statement, Exposure draft on the definition of material, case study on better communication); and if not, what else could be done to help entities identify when accounting policies are material.
- 40 Detailed questions raised to ASAF members are included in Agenda paper in 08-02, paper 24.

Appendix 1- Summary of ASAF agenda papers

- 41 The following paragraphs provide a more detailed analysis of the feedback received by the IASB and of the rationale for the IASB's tentative decisions as contained in the ASAF agenda papers

High priority topics

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

- 42 The objective of such guidance would be to help the IASB develop and draft disclosure requirements in a way that will help other stakeholders improve the effectiveness of disclosures for the primary users of financial statements.
- 43 The guidance would involve the following considerations:
- (a) guidance about process (for example if disclosure requirements should be developed at the same time as the related recognition and measurement requirements, the role that investor outreach should play in the development of disclosure requirements, etc.);
 - (b) guidance about the nature of the requirements (for example guidance about the appropriate balance of disclosure objectives, principles and prescriptive requirements and consideration whether to develop further the NZASB staff's approach as described in the IASB DP); and
 - (c) guidance about drafting disclosure requirements (for example the use of prescriptive language, the use of terms 'present' and 'disclose', reference to materiality considerations, etc.).
- 44 In terms of the form of the guidance, the IASB decided not to develop this guidance as a due process document but based on a set of IASB decisions (i.e. exposure selected test standards). Constituents' views could be obtained as part of the due process associated with standard-setting activities that will result from this guidance.
- 45 The main objective of developing such a guidance is that the IASB can help address inconsistencies in the way disclosure requirements in different IFRS Standards are developed and drafted. Moreover, the IASB will be in a better position to encourage other stakeholders to also take steps to help address the disclosure problem. However, developing such guidance is that it could delay any standard-setting activity the IASB might undertake in response to the disclosure problem.
- 46 The IASB decided that the IASB staff bring an initial analysis to the IASB at its May 2018 meeting, with a view to developing an initial version of the guidance that can be used in standard-setting activities in H2 2018.

Principles of effective communication

- 47 The IASB tentatively decided to not further develop principles of effective communication because, such principles:
- (a) are largely available from other sources;
 - (b) would not lead to direct improvement in existing disclosure requirements; and
 - (c) might be difficult to enforce.

Centralised disclosure objectives

- 48 The IASB staff considered that the lack of an effective starting point, could make it difficult to develop centralised disclosure objectives and thought specific Standards-level objectives might be more effective in addressing this problem. As a result, the IASB decided not to develop central disclosure objectives at this time.

Standards-level review of disclosure requirements

- 49 The objectives of any Standards-level review of disclosure requirements are to:
- (a) identify and remove excessive or redundant disclosure requirements;
 - (b) remove prescriptive language;
 - (c) link specific disclosure requirements in individual IFRS Standards to materiality considerations;
 - (d) incorporate overarching disclosure principles or objectives into individual IFRS Standards;
 - (e) develop specific disclosure objectives for each individual IFRS Standard; and
 - (f) make disclosure requirements across individual IFRS Standards more consistent and coherent.
- 50 The IASB tentatively decided:
- (a) not to start a comprehensive Standard-level review but, at this time, test its new approach on one or two standards (not yet identified); and
 - (b) that the IASB staff bring an initial analysis at the IASB meeting in June 2018 as to which IFRS Standard(s) should initially be the subject of the targeted review. This analysis will be based on:
 - (i) the feedback received in response to the IASB DP;
 - (ii) the feedback received from users of financial statements as part of the Investor Outreach programme;
 - (iii) the feedback received during recent Post Implementation reviews of IFRS Standards; and
 - (iv) relevant questions submitted to the IFRS Interpretations Committee.
- 51 The objective of developing a targeted Standards-level review is that this approach would enable the IASB to:
- (a) be responsive to feedback about its role in the disclosure problem by taking steps to improve the way that IFRS Standards are drafted in the short term; and
 - (b) retain flexibility to contribute in the best way possible as the iterative process of addressing the disclosure problem develops over time.
- 52 However, the IASB would not be responsive to the feedback received from those who supported a comprehensive review.
- 53 The IASB expects to discuss proposed amendments to the selected IFRS Standards over the second half of 2018 and seek input from constituents through the consultation process on the amendments.
- 54 The IASB will decide whether to perform further Standards-level reviews on a broader scale in the light of feedback received on the 'test' IFRS Standards.

Educational material

- 55 In their response to different areas of the IASB DP, a few respondents suggested the IASB should consider developing educational material to help address the disclosure problem.
- 56 Some respondents mentioned that in some jurisdictions the improvement has already been implemented in the last couple of years. The IASB considered that educational material can be prepared quickly. However, the IASB remarked that educational material would not be necessarily different from the material already prepared in some jurisdiction.
- 57 The IASB decided not to develop educational material at this time, as its initial focus should be on standard-setting activity. This educational material may be beneficial in the future, but it is not a priority at the current time.

Topics to be further analysed in this project

- 58 The IASB decided that it needs additional information to decide whether some topics were worth developing further. These topics are of lower priority than the topics discussed above and could be pursued independently of the high priority ones. The IASB staff will bring an analysis of these topics at the June 2018 IASB meeting.

Location of information

- 59 The IASB decided that the IASB staff should bring an analysis and recommendation of:
- (a) of whether such guidance is expected to lead to a substantial improvement in communication; and
 - (b) the results of limited outreach with respondents that raised concerns (for example, national standard-setters and regulators who raised concerns about interaction with local laws and regulations).

Determine which accounting policies to disclose

- 60 The IASB decided that the IASB staff should bring an analysis and recommendation of:
- (a) of the potential effect that the IFRS Practice Statement 2: *Making Materiality Judgments* ('Materiality Practice Statement') has on accounting policy disclosures; and
 - (b) of alternative approaches the IASB could take to developing such guidance.

Additional topics raised by respondents

- 61 The IASB received strong feedback that the IASB should work on the following topics that were not specifically addressed in the IASB DP.

Interaction with other IASB projects

- 62 Many respondents, including EFRAG, expressed concerns about the interaction (overlap and boundaries) between this project and other IASB projects and requested clarity.
- 63 The IASB decided that the IASB staff prepare a high-level summary of the interaction between the various projects under the *Better Communication* umbrella and bring it to the IASB at its May 2018 meeting.

Effect of technology and digital reporting

- 64 Many respondents of the IASB DP recommended that the IASB consider:

- (a) how the topics in the IASB DP might be affected by the move from paper-based to digital reporting; and
- (b) whether there are any additional disclosure issues in a digital environment that should be considered as part of the project.

65 The IASB decided that the IASB staff:

- (a) liaise with other project teams, including the taxonomy team and the team that is currently being formed to consider the potential implications of technology on financial reporting;
- (b) discuss the feedback received with the IASB's IFRS Taxonomy Consultative Group at its April 2018 meeting; and
- (c) bring an analysis and recommendation at the June 2018 meeting about how to consider the feedback received in response to the IASB DP.

Materiality

66 Many respondents commented on materiality issues in response to the IASB DP. The IASB decided that it consider whether to perform any further activity relating to materiality when it has more information about the practical effect of the following recent IASB publications related to materiality (not earlier than Q2 2019):

- (a) Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*) relating to materiality and aggregation, which became effective for annual periods beginning on or after 1 January 2016;
- (b) Materiality Practice Statement (entities are permitted to apply it to financial statements prepared any time after 14 September 2017);
- (c) development of the cases studies '*Better Communication in Financial Reporting: Making Disclosures More Meaningful*'; and
- (d) Exposure Draft ED/2017/6 *Definition of Material* (Amendments to IAS 1 and IAS 8) (published in September 2017).

Topics not to be further analysed in this project

67 Some topics received little feedback or support from respondents and therefore the IASB decided not to consider them further, but rather focus on topics that are expected to have the most effect on addressing the disclosure problem.

Guidance on formatting in financial statements

68 The IASB received mixed views from respondents on the question on whether the IASB should develop non-mandatory guidance on the use of formatting in the financial statements. A few respondents did not object to such guidance but did not consider it was a priority. In its comment letter to the IASB, EFRAG did not oppose the IASB's proposal but questioned the likely effectiveness of such guidance.

Use of 'present' and 'disclose' in IFRS Standards

69 Only a few respondents commented on this topic. Many of them that did comment (including EFRAG) agreed that the IASB should be more disciplined in specifying the intended location of information when these terms are used. The IASB will not further analyse this topic but the feedback received in this area will be considered in improving the way disclosure requirements are drafted in IFRS Standards.

Location of accounting policy disclosures

70 Only a few respondents provided input on this topic and generally considered that the IASB should prioritise developing requirements about which accounting policies to disclose rather than focusing on their location. In the same spirit, EFRAG

considered that the IASB should not be over-prescriptive about the location of accounting policies and disclosure of significant judgements and assumptions, to ensure that a preparer has some flexibility to determine the form and level of disclosure that best meets users' needs.

Location of disclosure objectives and requirements in IFRS Standards

- 71 Only a few respondents commented on this topic and mixed views were expressed. Consistent with EFRAG's view, respondents generally considered that the question of the location of the disclosure requirements was not the primary issue.

Topics to be considered as part of the Primary Financial Statements ('PFS') project

- 72 The IASB decided to consider within the PFS project the feedback received on the following topics:
- (a) roles of the primary financial statements and the notes;
 - (b) presentation of EBIT and EBITDA;
 - (c) depiction of unusual or infrequently occurring items in the statement(s) of financial performance; and
 - (d) fair presentation of performance measures.
- 73 The decision is consistent with the view expressed by EFRAG in its comment letter calling for of a more holistic and comprehensive discussion on the use of metrics such as EBIT/EBITDA and on unusual or infrequently occurring items view in the PFS project.