



EFRAG's draft comment letter to IASB's Disclosure Initiative - Principles of Disclosure

ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter to the *IASB's Disclosure Initiative - Principles of Disclosure* published by EFRAG in June 2017, a copy of which is available from this [link](#).

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MAJOR POINTS

Support for the Disclosure Initiative but more work needed

1. ICAEW welcomes the opportunity to comment on EFRAG's draft response to the IASB's *Disclosure Initiative – Principles of Disclosure*, which in our view is a critical IASB project.
2. In our draft response to the IASB we broadly support the proposal to develop principles of effective communication and centralised disclosure objectives, with further more specific disclosure objectives set at standard level. However, we acknowledge that these changes alone may not be sufficient to address the disclosure problem and encourage the IASB not to delay its standard-level review of disclosures.
3. We also believe that further consideration is needed in some areas, particularly in relation to understanding the needs of the primary users of financial statements. This point is discussed in more detail in our responses to EFRAG's specific questions below.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you agree with EFRAG's concern that the description of the disclosure problem in the IASB DP does not give sufficient emphasis to the problem of disclosure overload?

4. In our draft response to the IASB, we broadly support the proposal to develop principles of effective communication that entities should apply when preparing the financial statements. We believe this would provide a useful framework to help preparers apply judgement to disclosure requirements, and to communicate more effectively.
5. However, we acknowledge that, while developing principles of effective communication may be helpful to preparers when applying judgement to disclosure requirements, it does not directly tackle the lack of clear disclosure objectives in standards or existing long lists of disclosure requirements. Therefore we also support the development of centralised disclosure objectives, with further more specific objectives set at standard level.
6. We also believe that the IASB should not to delay its standard-level review of disclosures, which in our view will help address the disclosure overload issue outlined by EFRAG. Having said that, generally speaking we believe it is more important to focus on the quality and clarity of disclosures rather than on the length of financial statements per se.

Q2: Do you have any other concerns related to the description of the disclosure problem beyond those identified by EFRAG?

7. We are concerned that the IASB has not considered in sufficient detail the needs of the primary users of financial statements. In our draft response to the IASB we encourage further research to understand how users currently use the information in the financial statements; to identify any areas of duplication, for example, different types of information used by different users but for the same purpose; and to explore whether there is any information that would be helpful but is not currently provided in the financial statements. Obtaining this information will also be important when the IASB develops disclosure objectives, and essential for the standard-level review of disclosures.

Q3: Do you consider that the proposals in the IASB DP (including EFRAG's suggestions, where applicable) will help in addressing the disclosure problem? Why or why not? Please explain.

8. As discussed in our response to question 1, we broadly support the IASB's proposal to develop principles of effective communication and disclosure objectives. However, it will also be important for the IASB to carry its standard-level review of disclosures without delay.

Q4: Do you agree with EFRAG's initial assessment that that additional non-mandatory guidance on effective communication will not bring substantial further insights or benefits Why or why not?

9. We do not favour the IASB's proposals on effective communication being issued as non-mandatory guidance. In our view, the proposed disclosure principles and centralised disclosure objectives should be issued as amendments to IAS 1 *Presentation of Financial Statements*, with further more specific objectives developed at a standards level. We believe this would provide the right level of authority to help tackle the behavioural problem outlined by the IASB.
10. We also note that the IASB is consulting on whether or not it should issue non-mandatory guidance on the use of formatting in the financial statements. We believe that such guidance is not necessary and may in fact stifle the willingness of entities to take more innovative approach to the presentation of their financial information.

Q5: Do you agree with EFRAG's initial assessment that further work is needed from the IASB to determine whether some of these principles could be developed into requirements to be included in a general disclosure standard or carried forward in illustrative examples or implementation guidance accompanying but not forming part of a standard?

11. As noted above, our preference would be for principles of effective communication to be included as amendments to IAS 1, rather than as illustrative examples or implementation guidance accompanying the standard. Having said that, in our response to the IASB, we suggest that it would be helpful to obtain a better understanding of the information users find helpful and how that information is used, before establishing any principles of effective communication and/or disclosure objectives.

Q6: Do you agree with EFRAG assessment that more work is needed to assess the issues associated with the use of cross-references? In what circumstances do you think cross-references should be used?

12. Yes. We agree that further assessment in this area would be beneficial. In our response to the IASB, we suggest that the board considers developing a general principle whereby information that is necessary to comply with IFRS can be disclosed outside of the financial statements when equivalent information is also required by local laws or regulations to be disclosed in another section of the annual report.
13. In our view, this can be a practical solution, particularly when local regulatory requirements duplicate information also required to comply with IFRS standards. Indeed, this has been common practice in the UK for a number of years, for example in relation to the disclosure of directors' remuneration, and generally appears to work well.

Q7: 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? Please explain.

14. Yes, please see our response to question 6 regarding the use of cross referencing for the disclosure of directors' remuneration.

Q8: Do you consider that cross-referencing should be allowed in a broader set of circumstances than in current IFRS Standards? Please explain what would in your view be the appropriate conditions.

15. We have no comments on this matter at this stage.

Q9: Do you agree with EFRAG's tentative view that providing guidance on unusual or infrequently occurring items may be helpful, but the IASB should consider more broadly what adjustments are made to performance reporting? If yes, what other issues or requirements the IASB should consider? Please explain

16. In our response to the IASB we suggest that the board does not prohibit certain language or terms that are commonly used to describe unusual and infrequently occurring items. We suggest that a better approach would be to amend IAS 1 to include a requirement that an item should not be described using a term which is contrary to its natural meaning, for example, not to use the word 'non-recurring' for an item that recurs on a regular basis.
17. We agree with EFRAG that it would be helpful for the IASB to consider more broadly what adjustments are made to performance reporting.

Q10: Do you have any particular views on the extent to which entities should be required to disclose accounting policies referred to as Category 2 in paragraph 96(b) above? Please explain your views.

18. We broadly agree with the IASB's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose in the financial statements. However, we are not convinced with the proposal to identify three different categories of accounting policy. We struggle to see how these categories will provide meaningful help to entities when deciding which accounting policies to disclose. In our view, it is more important for the IASB to emphasise that entities are required to disclose only those policies necessary for an understanding of the financial statements.