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Dear Jean-Paul,

IASB Discussion Paper ‘Disclosure Initiative – Principles of Disclosure’

Thank you for providing the Financial Reporting Council (FRC) with the opportunity to comment on your draft comment letter (DCL) to the IASB on the Discussion Paper (DP) ‘Disclosure Initiative – Principles of Disclosure’.

We broadly support the EFRAG DCL. We do, however, see that there could be a role for non-mandatory guidance on the principles of communication alongside certain principles which have been elevated to an enforceable level and contained within a standard or framework. This is based on our experience of issuing communication principles in the UK, some of which are back by legislative requirements and are enforceable, some of which are non-mandatory best practice only.

Our response to the IASB is included for your information at Appendix 2. Included at Appendix 1 are some high level comments on the additional questions raised by EFRAG.

If you would like to discuss these comments, please contact Debbie Crawshawe on 020 7492 2461 or at d.crawshawe@frc.org.uk.

Yours sincerely



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Paragraph 18: 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?

We agree that the issue of disclosure overload is not sufficiently emphasised in the DP. However, we are concerned that highlighting the problems with the description could result in delays in addressing the disclosure problem while further resource is dedicated to articulating the problem. We believe that a standards level review will have the greatest impact on behaviour and that this is where attention should be focussed.

Paragraph 19: Do you have any other concerns related to the description of the disclosure problem beyond those identified by EFRAG?

No.

Paragraph 20: 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

We are concerned that certain of the proposals in the DP will add to the complexity and clutter in financial statements, rather than improve the disclosure problem. We believe that there is insufficient emphasis in the DP on telling a cohesive, coherent and entity-specific story. We are also concerned about the fragmented nature of this project and believe that certain issues are extremely difficult to consider in isolation; in particular, we view consideration of materiality as critical to ensuring an appropriate approach to disclosure.

Paragraph 36: Do you agree with EFRAG's initial assessment that additional non-mandatory guidance on effective communication will not bring substantial further insights or benefits? Why or why not?

We do not agree with EFRAG's initial assessment that additional non-mandatory guidance will not bring substantial further insights or benefits. In the UK, the FRC has published non-mandatory principles of effective communication and we believe that the guidance and principles have been helpful, effective and have resulted in improvements in reporting.

Paragraph 37: 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 the standard?

We agree with EFRAG that certain of the communication principles could be developed into enforceable principles such as fair, balanced and comprehensive in the UK.

Paragraph 76: Do you agree with EFRAG's assessment that more work is needed to assess the issues associated with cross-references? In what circumstances do you think cross-references should be used?

We agree that further work is required in this area. We would not, however, support an approach which identified situations where cross-referencing should be used, but we recognise that there are situations where they could be used, for instance to aid understandability, to reduce duplication etc.

Paragraph 77: 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.

The use of cross referencing to information contained outside of an annual report and accounts is not common in the UK, however, cross references to, for instance, the directors' remuneration report contained within the annual report and accounts in respect of related party disclosures, is used. This type of cross-referencing brings the information within the scope of the audited financial statements, but it is still within the document of reference that is the annual report and accounts.

Paragraph 78: 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?

We do not believe that thinking is sufficiently advanced in this area to reach a view on this matter. We believe that work is required on how to preserve an appropriate level of integrity and level of assurance before concluding on the types of information that could be included by cross-reference. We also believe that potential technological developments could have a significant impact in this area.

Paragraph 94: 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.

We agree that the development of principles supporting when an item could or should be described as unusual or infrequently occurring may be helpful. We do, however, advise caution in relation to prohibiting specific terms as we are aware that such terms do not necessarily translate easily from English, resulting in unforeseen consequences.

Paragraph 107: 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.

We believe that further consideration should be given as to whether policies that are in category 2 need to be disclosed in full, or whether a reference to the standard would be sufficient. In its 2014 report on Accounting Policies, the FRC's Financial Reporting Lab noted that opinion was divided on whether disclosure of an accounting policy which merely repeated the relevant IFRS was useful in annual reports. We believe that this idea should be pursued further.