afme/
Finance for Europe

IFRS Foundation
30 Cannon Street
Moorgate Place
London
EC4M 6XH
United Kingdom

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Dear Sirs,

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the IASB Discussion Paper DP/2017/1 – *Disclosure Initiative – Principles of Disclosure* ('the DP'). AFME represents a broad range of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks and other financial institutions. AFME advocates stable, competitive and sustainable European financial markets, which support economic growth and benefit society.

We agree with the Board identifying a 'disclosure problem' and with the main concerns mentioned in paragraph 1.5 of the DP (not enough relevant information/irrelevant information/ineffective communication of the information provided) as leading to the disclosure problem. We also support the IASB's intention to develop a set of disclosure principles, as we believe this would be a positive step towards allowing entities to use judgement when applying disclosure requirements and, in particular, on whether certain requirements are material or relevant to their own entity and business model. We also believe, however, that an effective disclosure regime, in particular as it refers to the notes to the financial statements, could not be based solely on objectives or principles. The IASB should therefore ensure that such a regime contains an appropriate balance between high-level principles and more prescriptive targeted requirements, which would provide guidance on how to implement those principles. The absence of specific examples or guidance in the areas where this is necessary could lead to unforeseen consequences for preparers, especially if accompanied by an expectation gap between preparers' interpretation of the high-level requirements and other stakeholders' views of how they should be reflected in practice.

We also note that more clarity would be needed with regard to the future direction of the proposals in the Discussion Paper before assessing whether these would be able to provide a solution to the problems identified. Some of the recommendations in the DP seem to be of a broad-range nature and, in certain areas (such as Effective Communication or the Role of Primary Financial Statements), aimed at companies with less complex reporting functions. Other proposals meanwhile (such as the 'Method B' approach for centralised disclosure objectives) would seem to be quite broad and potentially impose a substantial administrative burden on preparers.

We would also like to highlight that part of the solution for overcoming the disclosure problem lies in the IASB reviewing IFRS standards regularly to ensure that disclosure requirements which have become redundant or too burdensome are removed or replaced with better-targeted requirements. This exercise should help to solve the problem of the 'information overload' which has been raised by stakeholders in several of the IASB outreach discussions related to the DP and it could be performed alongside the IASB annual improvements project. The review should be focused towards maintaining the relevance of disclosures, without creating at the same time undue uncertainty for preparers by making frequent changes to the disclosure requirements.

We would also highlight that the overall aim of making financial statements into an effective communication tool should not lie exclusively with preparers. We note in this respect that one of the conclusions of the survey run as part of the May 2013 IASB public Discussion Forum on Disclosures in Financial Reporting was that "all parties in the financial reporting process (users, preparers, standard setters, auditors and regulators) should work together to enhance and improve disclosure." In its standard-setting role, the IASB has taken the lead in shaping the disclosure requirement in IFRS Standards and is therefore ideally-placed to act as a catalyst for improving disclosure. We believe, however, that other stakeholders, besides preparers of financial statements, should also play their parts in contributing to improvements in disclosure.

Please find below our detailed answers to the questions contained in the consultation document:

Question 1

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

(a) 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?

(b) Do you agree that the development of disclosure principles in a general disclosure standard (ie either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

As mentioned above, we do not disagree with the three main concerns (not enough relevant information, irrelevant information, ineffective communication of the information provided) identified by the IASB in relation to the disclosure problem and detailed in paragraph 1.5 of the DP.

However, we do not think that the development of a general disclosure standard would entirely resolve the disclosure problem. As we have reiterated in our introductory comment above, we believe that all stakeholders (users, preparers, standard-setters, auditors and regulators) have a shared responsibility in addressing the disclosure problem, and, as such, the onus should not lie only on the preparers of financial statements.

In order to tackle the "information overload" problem the IASB should also prioritise developing a process to regularly review standard-level disclosure requirements to ensure that they remain relevant and consistent across the IFRS Standards.

Question 2

Sections 2–7 discuss specific disclosure issues that have been identified by the Board and provide the Board's preliminary views on how to address these issues.

Are there any other disclosure issues that the Board has not identified in this Discussion Paper that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?

We do not have any comments at this stage on any other disclosure issues which would have to be identified by the Board in relation to the Principles of Disclosure project.

Question 3

The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance.

The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22.

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

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

(c) 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?

(d) 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 in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.

We are generally supportive of the principles of effective communication described in paragraph 2.6 of the DP.

We do, however, have some concerns regarding the wording in sub-paragraph 2.6(f) which states that the information "should be provided in a way that optimises comparability among entities and across report periods without compromising the usefulness of the information". While we agree that preparers could take steps towards improving the comparability of information provided between different periods, as this is within their control, we do not think that the same could be said about the comparability of information produced by different entities. The information produced by different preparers is subject to various legal, institutional and cultural factors which might render it less likely to be easily comparable, with many of these factors outside the entity's control. Introducing this part of the principle in 2.6(f) therefore goes beyond what could be reasonably expected to be achieved by preparers of financial statements.

We would also support issuing non-mandatory guidance for defining the principles of effective communication that entities should apply when preparing financial statements.

Question 4

The Board's preliminary views are that a general disclosure standard should:

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

● describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24;

● describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanatory and supplementary information, as referred to in paragraphs 3.26–3.27; and

● 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.

In addition, the Board's preliminary views are that:

● 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

● 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 Board's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

We generally agree with the proposed definition of 'primary financial statements' and the role of financial statements identified in paragraphs 3.22 and 3.24. We would however like to note that, while the statement of cash flows can be fundamental for entities in certain business sectors, it does not generally provide relevant information for banks. This is due to the statement of cash flows not enabling users of banks' financial statements to evaluate changes in an entity's net assets or financial structure (including liquidity and solvency).

Paragraph 3.28(b) of the DP defines the role of the notes as to "supplement the primary financial statements *with other information that is necessary to meet the objective of the financial statements*". We do not think that the highlighted generic reference adequately defines the boundary of the notes and we therefore urge the Board to align this definition to the current one, reflected in the following paragraph112 of IAS 1:

"The notes shall:

a) Present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117-124;

b) Disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and
c) Provide information that is not presented elsewhere in the financial statement, but is relevant to an understanding of any of them."

We note that paragraph 3.32 of the DP states that "However, when drafting Standards in the future, the Board's preliminary view is that rather than using the terms 'present' and 'disclose' on their own to specify the location of information in the financial statements, the intended location – 'in the primary financial statements' or 'in the notes' should also be specified."

We also note however that the terms "presentation" and "disclosures" are currently used in the IFRS Standards to refer to the primary financial statements and the notes respectively. We therefore believe that the proposal in paragraph 3.32 could potentially confuse users and other stakeholders should the Board not also clarify the use of the terms "presentation" and "disclosures" in the IFRS Standards. Furthermore, the different uses of the terms "present" and "disclose" in the DP on one hand, and in existing IFRS on the other, would seem to require a review of their current use in standards, which would add unnecessary complexity and uncertainty. Our preference would therefore be for the Board to prescribe the meaning of 'present' as presented in the primary financial statements and the meaning of 'disclose' as disclosed in the notes. Should the Board decide to retain the drafting in paragraph 3.32 in its final guidance or standard, it would also need to develop a consistent approach for the use of the terms 'presentation' and 'disclosure' in the IFRS Standards in order to avoid creating confusion amongst stakeholders.

Question 5

The Board's preliminary view is 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).

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

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

Paragraph 4.9 notes that “The Board’s preliminary view is 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”.

We would not generally favour disclosing information necessary to comply with IFRS standards outside financial statements, and we would support the requirements in 4.9 for those cases where entities consider that such presentation is appropriate.

Question 6

The Board’s preliminary view is 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).*

Do you agree with the Board’s preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

We believe that ‘non-IFRS information’ should not normally be part of audited financial statements, unless mandated by local laws and regulations. In general, when published together (such as in an annual report), the IFRS-required financial information and non-IFRS disclosures should be clearly separated and marked as such. Some other exceptions could however be made for information that is not strictly required by IFRS standards, but which is provided in accordance with their principles. Such disclosures should, however, be clearly labelled and sufficient information should be provided with respect to what they represent and the methodology used for producing them.

Question 7

The Board did not discuss whether any specific information—for example, information that is inconsistent with IFRS Standards—should be required to be identified as described in paragraphs 4.38(a)–(c) or should be prohibited from being included in the financial statements.

Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

Please refer to our answer to Question 6 above for our general views on whether any specific information that is not part of IFRS Standards could be included in the financial statements.

In terms of information that is *inconsistent* with IFRS standards, we believe that such disclosures should not be generally allowed to be included within financial statements. If, on an exception basis, it is concluded by an entity that it is appropriate to include such information within the financial statements, it should be accompanied by a clear explanation of why its inclusion was necessary. Also, if preparers wish to present information that is inconsistent with IFRS standards in other published reports (such as the 'unaudited' part of the annual report), they should be allowed to do so if such information is clearly distinguished from IFRS-compliant disclosures.

Question 8

The Board's preliminary views are 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:*

- *the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and*
- *the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.*

● *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.*

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?

(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 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 Board's Primary Financial Statements project.

We have no further comments regarding the presentation of EBIT or EBITDA in the primary financial statements, as these are not as relevant for the financial services sector.

Paragraph 5.27 notes that "The Board discussed, but 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 (ie the term itself is unclear as to whether the items are unusual, or infrequent, or both)". Paragraph 5.28 then goes on to list some stakeholders' suggestions regarding the use of terms such as 'infrequently occurring', 'unusual' etc.

We believe, however, that the Board should not adopt restrictive rules in this area but rather should draft a set of high-level principles guiding preparers in their use of the terms describing the frequency of certain transactions. This would allow sufficient flexibility and the use of professional judgement in an area which is inherently very case- and entity-specific (due to the nature of infrequent transactions and the different ways in which they should be reflected in the financial statements).

Question 9

The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34.

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

We agree with the Board's suggested requirements for performance measures listed in paragraph 5.34 of the DP.

Question 10

The Board's preliminary views are that:

● a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and

● 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):

> *● the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and*
>
> *● the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.*

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

(b) Do you agree with the Board'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 in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

Paragraph 6.24 of the DP notes that: "The Board's preliminary view is that an entity should only disclose the accounting policies necessary to an understanding of the financial statements (significant accounting policies—Categories 1 and 2). If an entity chooses to disclose any Category 3 accounting policies, it could consider separating them from its significant accounting policies to help users of financial statements to identify the most important information by:

> (a) disclosing Category 3 accounting policies in a separate note or at the end of the accounting policies note. Separating Category 3 accounting policy disclosures from the disclosures about significant accounting policies reduces the risk of obscuring disclosures about significant accounting policies.
>
> (b) disclosing Category 3 accounting policies outside the financial statements and providing a cross-reference to their location."

We agree with the principle that providing guidance for the disclosure of accounting policies necessary for understanding the financial statements is useful. We believe, however, that the guidance should not be overly-prescriptive and that flexibility should be given to preparers regarding the location and form of those disclosures in order to allow preparers to tailor them towards the individual circumstances of different entities.

In order to address the 'disclosure overload' problem we would also recommend that the Board clarifies that the disclosure of accounting policies with respect to non-material items is not required, but could be made if relevant to an entity's circumstances. For example, a business which has no acquisitions to report in the last set of financial statements would not be required to disclose its accounting policy towards recording acquisitions but might chose to do so if it plans to undertake an acquisition in the upcoming accounting period.

Question 11

The Board's preliminary view is 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.

Centralised disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements.

Do you agree that the Board should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

As mentioned in the introductory comments to this response letter, any set of disclosure requirements should not be based solely on objectives or principles. The IASB should therefore ensure that such a regime contains an appropriate balance between high-level principles and more prescriptive targeted requirements which would provide guidance on how to implement those principles.

While we acknowledge the potential usefulness of developing centralised disclosure objectives to guide the Board in developing and drafting the disclosure requirements in IFRS Standards, we nevertheless would recommend that their development should be preceded by a decision on the mix in any new disclosure framework between high-level principles and standard-specific disclosures.

Question 12

The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards:

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

● focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B).

(a) Which of these methods do you support, and why?

(b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section.

Methods A and B are in the early stages of development and have not been discussed in detail by the Board. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

As mentioned above, we would urge the Board to determine the mix between high-level principles and standard-specific disclosures before proceeding to the development of centralised disclosure objectives. Furthermore, we would question whether a completely new approach (as suggested by either Method A or Method B) is necessary and would constitute the most efficient way for addressing the 'disclosure problem'. We note that the Board has recently used an approach in new or amended IFRS Standards (e.g. IFRS 16 etc.) where the Board sets an overall disclosure objective and also provides a list of core disclosure requirements. Rather than starting from scratch, we would recommend that the Board make targeted improvements to this current approach.

Question 13

Do you think that the Board 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?

Our view is that the question of whether to locate all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, is not one of primary importance. Instead, the IASB should ensure that there is an appropriate balance between high-level principles and standard-specific disclosures and that the disclosure requirements in the IFRS standards are regularly reviewed to ensure that those disclosure requirements which have become redundant or unduly burdensome are removed or replaced with better-targeted requirements.

Question 14

This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards.

(a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?

(b) Do you think that the development of such an approach would encourage more effective disclosures?

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

Note that the Board is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB staff's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

Please see our comments to Question 12 above.

Question 15

Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4).

Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives.

Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting *contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why*

Please refer to our comments above regarding the need to ensure that existing standards are regularly reviewed so that disclosure requirements which have become redundant or too burdensome are removed or replaced with better targeted requirements. This exercise could help solve the problem of the 'information overload' which has been raised by stakeholders in several of the IASB outreach discussions related to the DP and could be performed alongside the IASB annual improvements project.

AFME contact

Stefan Paduraru, stefan.paduraru@afme.eu +44 (0)20 38282719