

STAFF PAPER

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IASB meeting

Project	Disclosure Initiative—Principles of disclosure		
Paper topic	Scoping the project		
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Purpose of this paper

1. We want to obtain the views of the IASB on the potential scope of the Principles of Disclosure research project under the Disclosure Initiative.

Background

2. In its May 2013 Feedback Statement *Discussion Forum—Financial Reporting Disclosure*, the IASB indicated that it would consider starting a research project exploring feedback received on its *Conceptual Framework* and *Financial Statement Presentation* (FSP) projects and from the disclosure activities already undertaken by it and others.¹ As a result, we have started the Principles of Disclosure (POD) research project under the IASB's Disclosure Initiative.
3. The POD project responds to comments received to the IASB's *Agenda Consultation 2011* that a disclosure framework is needed in IFRS. Some aspects of a 'disclosure framework' are currently being addressed in the *Conceptual Framework* project. The POD project complements that work.
4. The topics to be considered in the POD project expand on some of the principles being developed in the *Conceptual Framework* project and a variety of issues and

¹See page 20 of the Feedback Statement.

recommendations raised by constituents within the context of financial reporting presentation and disclosures.

Objective of the project

5. The objective of this research project is to identify and develop a possible set of principles for disclosure in IFRS that could form the basis of a Standards-level project. The research phase will focus on reviewing the general requirements in IAS 1 *Presentation of Financial Statements*, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and considering how they might be replaced with a single Standard, in essence creating a disclosure framework.
6. The main focus of our research will be on the recommendations for improvements that were expressed by constituents in the Financial Reporting Disclosure Discussion Forum and in a variety of their publications for the overall improvement of financial reporting disclosures (see Appendix A). The research activities will bear in mind the feedback received in the *Conceptual Framework* project and corresponding efforts for developing principles about disclosure.
7. It is not intended in this project to develop proposals for removing or adding specific disclosure requirements in other Standards. The disclosure requirements in all Standards will be reviewed systematically in the light of the revised *Conceptual Framework* and of work undertaken on IAS 1, IAS 7 and IAS 8. Similarly, in this project we are not considering developing specific guidance for individual primary financial statements or notes.

Project approach

8. We envisage taking the topics in this paper individually to the IASB over the period of the research project. The results of the research would form the basis of a Discussion Paper published before the end of 2015 setting out the IASB's preliminary views on the main features of a potential disclosure framework. If the

IASB then decides to proceed to a Standards-level project, development of an Exposure Draft would involve implementing, in the light of feedback received, the principles set out in the Discussion Paper.

9. It is also possible that during this research phase the IASB will identify improvements to disclosure requirements that should be elevated to a Standards-level project immediately, such as proposals for narrow-focus amendments to IFRS similar to the recent Disclosure Initiative projects on IAS 1.

Question 1 — Project approach

Does the IASB agree with the described approach of the research project?

Potential topics

10. We have reviewed a variety of publications containing recommendations for the overall improvement of financial reporting disclosures. As a result of this review we have identified the following potential topics for this phase:
- (a) principles of disclosure for the notes (paragraphs 13–16):
 - (i) objective and boundaries; and
 - (ii) principles regarding the organisation, placement, format and linkage of information.
 - (b) information in a complete set of IFRS financial statements (paragraphs 17–22):
 - (i) presentation and disclosure of non-IFRS financial information; and
 - (ii) comparative information.
 - (c) cash flow reporting (paragraphs 23–25);
 - (d) differential disclosures and proportionality (paragraphs 26–32); and
 - (e) disclosure of interim financial information (paragraphs 33–34).

11. We believe that when addressing above topics it will be inevitable to consider some aspects of presentation to the extent they are part of a principle that applies to both the primary financial statements and the notes. We discuss these aspects of presentation in paragraphs 35–37 in this paper.
12. We do not think that the POD project should cover issues that are closely related to applying the concept of materiality, because these issues are being addressed in the IASB’s separate project under the Disclosure Initiative on materiality.

Principles of disclosures for the notes

Objective and boundaries

13. Many constituents think that there is a need to clarify the objective and the boundaries of the notes. For example, some have asked the IASB to clarify how information in the notes relates to other parts of an entity’s financial reporting package, for example, to financial information as part of management commentary. Others argue that the “notes have become regarded as a means of compensating for the shortcomings of recognition and measurement principles”² and should be reconsidered.
14. In its recent Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* the IASB discussed a high-level objective and scope of information in the notes to the financial statements. We think that it is necessary for us, working in conjunction with the *Conceptual Framework* project team, to assess the extent to which these high-level objective and boundaries of the notes need to be reflected in a general disclosure Standard.

Principles regarding the organisation, placement, format and linkage of information

15. In addition to the objective and boundaries of the notes, many constituents believe that there should be enhanced principles and guidance about the way in which financial information is communicated in the notes. Constituents

² Discussion Paper *Towards a disclosure framework for the notes* published by EFRAG, ANC, and FRC in 2013.

recommendations are varied and address the organisation, placement, format and linkage of information; for example:

- (a) to give more detailed requirements for the format of tables for specific types of financial information in the notes;
- (b) to explore the possibilities of ‘outsourcing’ long-standing data such as significant accounting policies, ie disclosing information somewhere outside of the financial statements;
- (c) to assess in which circumstances cross-references to information can be used;
- (d) to differentiate between core/key information for some users of financial statements and additional—usually more complex—disclosures placed separately for other users of financial statements that prefer the full set of disclosures. Some constituents also described this as a two-layer approach of disclosure, ie having one shorter, simpler version of the financial report with the first layer of disclosures and a second layer containing all the detailed disclosures.

16. We think that this project should consider these different recommendations and undertake research to assess the extent to which they could be implemented in a general Standard on disclosures. The project will also consider the feedback received in the *Conceptual Framework* project regarding the proposed communication principles and how they could be incorporated at a Standards-level. Furthermore, research on this topic may explore the opportunities and limitations of reporting financial information in an electronic format.

Information in a complete set of financial statements

Presentation and disclosure of non-IFRS financial information

17. Some constituents have raised an issue about supplementary financial information that is often described as ‘non-IFRS’, including ‘pro-forma’ financial information. In some cases entities explicitly label financial information as non-IFRS. The debate particularly (although not exclusively) focuses on supplementary

performance measures in the statement of comprehensive income or in the notes.

Questions that are commonly raised include:

- (a) What form of disclosure should be considered as non-IFRS financial information?
- (b) May an entity disclose non-IFRS information in a complete set of IFRS financial statements?
- (c) Where in the financial statements can non-IFRS disclosures be made; ie, can they be made in the primary financial statements?

18. Some argue that this type of supplementary information, including additional performance measures, may be necessary or useful to meet the demands of users of financial statements such as analysts and investors. However some believe that there is potential for these types of disclosures to be misleading. Furthermore, there are concerns that such additional information increases complexity for users of financial statements and harms the effectiveness of disclosure. For example, users of financial statements may be confused when additional performance information in the primary financial statements or the notes is described with similar-sounding financial terms, but is defined in different ways by different reporting entities. In addition, concerns have been raised about the consistency of such additional information.

19. On the basis of reviews of reporting practice, some jurisdictions added national regulatory guidance that generally limits or even prohibits an entity from including non-IFRS financial information in the primary financial statements or the notes. Some jurisdictions have also provided further guidance on when entities must consider providing additional information that is non-IFRS financial information.³ Within a similar context to the application review of IAS 1, the IFRS Interpretations Committee (the Interpretations Committee) recently received

³ For example ASIC, Regulatory Guide 230 *Disclosing non-IFRS financial information*; Canadian OSC CSA Staff Notice 52-306 (Revised) – *Non-GAAP Financial Measures and Additional GAAP Measures*.

an agenda item request regarding specific disclosure practice that may be considered as a disclosure of ‘non-IFRS’ financial information.⁴

20. The IASB has already published proposals for more guidance regarding the presentation of additional line items in the primary financial statements in its Exposure Draft *Disclosure Initiative – Proposed amendments to IAS 1* published in March 2014. We think that the POD project should explore to what extent constituents believe the IASB should develop additional Standards-level guidance regarding the disclosure of non-IFRS information in a complete set of IFRS financial statements. We think this topic would also include a review of disclosure principles and guidance that were developed in the FSP project regarding the depiction of unusual or infrequent occurring events or transactions. It would encompass the questions and concerns some constituents have raised about the presentation and disclosure of ‘exceptional’ transactions or events for the reporting period.

Comparative information

21. The Interpretations Committee recently discussed an agenda item request relating to the distinction in IAS 8 between a change in an accounting estimate and a change in an accounting policy. The distinction has implications for the disclosure of comparative information in the light of whether the entity should provide retrospective restatements. The Interpretations Committee concluded that it would be helpful if more clarity were given in IAS 1 and IAS 8 to help entities make the distinction between a change in an accounting policy and a change in an accounting estimate, including clarity on how to deal with changes in the method of estimation. Furthermore, the Interpretations Committee considered that any amendment to the Standards would be too broad for it to address within the confines of existing Standards. Instead, the Interpretations Committee considered whether the IASB could address this issue in the Disclosure Initiative project and/or the *Conceptual Framework* project.
22. We think that this issue should be addressed in this Disclosure Initiative project. It would include the question of whether to retain disclosure differences arising

⁴ Pending agenda item request from ESMA regarding the application of IAS 1 *Presentation of Financial Statements*.

from the distinction between a change in accounting estimates and a change in accounting policy. It would also explore whether it is useful to define any additional types of change and any corresponding additional disclosures, eg the change in a method of application of an accounting policy.

Cash flow reporting

23. Some users of financial statements believe that disclosure within the context of cash flow reporting should be improved more generally in IFRS. The IASB had made tentative decisions in the FSP project implying significant changes for cash flow reporting compared to existing requirements in IAS 7. The tentative decisions in the FSP project to improve cash flow reporting included:
- (a) mandatory reporting of actual operating cash flows (direct method) in the statement of cash flows;
 - (b) reconciliation from profit or loss from operating activities to cash flows from operating activities;
 - (c) general alignment of classification of cash inflows and outflows with the sections and categories in the statement of comprehensive income;
 - (d) disclosure of changes relating to cash flows as part of the roll-forward disclosure for assets and liabilities; and
 - (e) net debt reconciliation, including cash and short-term investment.
24. Some of these tentative decisions were identified in FSP outreach activities as being the most controversial. The feedback from those outreach activities also addressed some doubts regarding the general usefulness of information in the statement of cash flows of financial institutions.
25. On this basis, we think that there is a more general need to review how cash flow reporting could be improved. The UK Financial Reporting Council (FRC) is currently undertaking research, at our request, with the aim of identifying useful improvements in the Statement of Cash Flows. The FRC's research is designed to provide input to this (the IASB's) project.

Differential disclosure and proportionality

26. Some constituents believe that the development of differential disclosure regimes should be considered as a potential key for addressing some concerns about disclosure burdens and improving the effectiveness of communication. They recommend, in addition to materiality, the introduction of a principle of ‘proportionality’; ie disclosures need to be proportionate to the type or nature of an entity, taking into account the needs of the users of those financial reports.⁵ The debate about differential disclosure regimes typically involves a discussion about different levels of disclosure requirements depending on:
- (a) the types of reporting entities (paragraphs 27-30 below); and
 - (b) the relative importance of the line items (paragraphs 31-32 below).

Disclosure depending on the types of reporting entity

27. Different types of reporting entity include:
- (i) smaller entities versus larger entities;
 - (ii) entities with listed (publicly traded) debt or equity financial instruments versus those without such instruments;
 - (iii) closely held entities versus those with widely dispersed ownership; and
 - (iv) individual (legal) entity versus group of entities.
28. In general, disclosure requirements in IFRS apply to all entities and do not differentiate between different types of reporting entity. This follows from the conclusion that the objective of general purpose financial reports is the same for all entities.
29. Nevertheless, the IASB concluded in the revision of Chapter 1 *The objective of general purpose financial reporting* of the *Conceptual Framework* that cost constraints and differences in activities among entities may sometimes lead the IASB to permit or require differences in reporting for different types of entities.⁶

⁵ FRC Discussion Paper *Thinking about disclosures in a broader context*.

⁶ Paragraph 1.30 of Basis for Conclusions of the *Conceptual Framework*.

IFRS 8 *Operating Segments* may be considered as an example, ie segment reporting is required if an entity's debt or equity instruments are traded in a public market.

30. Some constituents believe that disclosure exceptions similar to those in IFRS 8 should also be considered for other IFRS disclosure requirements. We think that such a debate could be addressed in this project.

Disclosures depending on the relative importance of line items

31. Another approach for differential disclosure derives from the idea of achieving a graduated scale of information within the context of the importance of line items. Thus, relatively more important transactions or events would require relatively more disclosures.
32. We think that this form of proportionality is essentially the application of materiality to the notes and will be considered as part of the short-term Disclosure Initiative project on materiality.

Disclosure of interim financial information

33. Some users of financial statements argue that information in interim financial reports should provide the same degree of detail and transparency as is provided in annual reports.⁷ Hence, they are concerned about the current degree of disclosure relief in IAS 34 *Interim Financial Reporting*. Others are of the view that reporting interim financial information should be considered in accordance with IAS 34 as an update and therefore interim financial statements should not provide the same degree of detail as provided in annual financial statements. The development of improved guidance on interim financial reporting was considered by the IASB as a potential phase of the FSP project before it was suspended.
34. The IASB excluded any discussion relating to interim financial reports from the scope of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. A conceptual review of interim financial reporting could be

⁷ CFA Institute *Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume*, page 97.

considered as a follow-up to the revised *Conceptual Framework* and work undertaken on IAS 1, IAS 7 and IAS 8. Nevertheless, because the extent of interim disclosure requirements was the subject of debate in recent projects, we believe it would be useful to begin to explore in this research project the disclosure of interim financial information, taking into account the existing trade-off in providing the information between usefulness and cost constraints.

Principles for presentation

35. Some users believe that financial reports could communicate information more effectively if the primary financial statements were aligned in a way that helps them more easily assess the relationships and differences in the information conveyed by those financial statements⁸. In addition some users of financial statements have said that better alignment across the primary financial statements, with sufficient disaggregation, should be high priority for improving financial reporting disclosures.⁹ They argued that a more cohesive depiction of relationships between primary financial statements is likely to lead to the need for fewer disclosures, because the necessary transparency and underlying relationships between balances that produce the financial results and cash flows would be more obvious to investors and other resource providers.
36. However, in the POD project we do not intend to explore the detailed presentation (eg specific line items) that is particular to any one financial statement, unless it has implications for principles that could apply to other statements and/or disclosures in the notes as a whole. For example, in this project we do not intend to undertake further research on the distinction between profit or loss and other comprehensive income.
37. Those aspects of presentation in primary financial statements that we intend to explore as part of the POD project include the following:

⁸ The Financial Statement Presentation project described this as ‘cohesiveness’.

⁹ CFA Institute, *Financial Reporting Disclosures—Investor Perspectives on Transparency, Trust, and Volume*.

- (a) We think that there is a close, sometimes interchangeable, relationship between presentation and disclosure. For example, a class of assets presented as a line item in the statement of financial position of one entity, might be disclosed in the notes of another entity. Current Standards—in particular IAS 1—include requirements for information that can be provided in the primary financial statements or in the notes. Consequently, we intend to explore whether principles could be developed to help entities decide whether an item should be presented as a line item in the primary financial statements or disclosed in the notes.
- (b) We also think that some of the ideas developed in the FSP project about activities-based presentation (eg operating, financing) could be explored within the context of disclosures. In particular, we would like to undertake research to see whether setting disclosure objectives and requirements within the context of activities, rather than topics, could assist the IASB when setting disclosure requirements by highlighting inconsistencies and redundancies within existing Standards. Setting activities-based disclosure objectives may help entities better apply the concept of materiality and also provide a basis to group and link disclosures in the notes, thereby helping them to ‘tell their story’.
- (c) Presentation in the cash flow statement may also be considered in our broader work on cash flow reporting (see paragraphs 23-25 above).

Feedback from the Accounting Standards Advisory Forum

38. A similar paper about the potential scope of the POD project was discussed at the Accounting Standards Advisory Forum (ASAF) meeting in March. The purpose of that paper was to obtain ASAF members’ views on the proposed objective and the potential research topics for improving financial reporting disclosure. Views discussed included:
- (a) Many ASAF members supported the general direction of the project regarding the objective as well as the potential topics for research.

- (b) Views were expressed that there is no need to bring all presentation and disclosure issues into a single research project. Some were of the view that disclosure principles for the notes to the financial statements could be dealt with separately from addressing presentation improvements in the primary financial statements. Considering the amount of work previously undertaken in the FSP project, there were concerns that new research activity in this area could take several years.
- (c) Some ASAF members cautioned the IASB to bear in mind the areas on which many stakeholders expressed concerns in the previous FSP project. Views were expressed that direct method cash flow statements and ‘cohesiveness’ were some of the most contentious issues, and that it is important to carefully investigate lessons learnt from the previous discussion before initiating the project.
- (d) Many ASAF members considered that the boundary of financial statements was very important but that this was, in the first instance, an issue for the *Conceptual Framework*. Views were expressed that it would be difficult to improve disclosure principles in IFRS if the boundaries of financial statements were not clear.
- (e) Some ASAF members questioned the inclusion of the research topic relating to non-IFRS/non-GAAP information. They questioned to what extent this issue could be addressed by a standard-setter. However, there was support for considering the issue from the perspective of presentation in the primary financial statements.
- (f) There was general support from ASAF members for exploring improvements to communication principles in IFRS. However one ASAF member expressed concerns regarding the introduction of a general option to cross-reference to information outside the financial statements.
- (g) There was general support for clarifying the underlying principles of interim financial reporting and some ASAF members believed that it would be worthwhile to explore the concept of differential disclosures for IFRS based on the type/characteristics of the entity.

Question 2—Topics

(a) Does the IASB agree with the research topics described in paragraphs 13 to 37?

If no, which topics should be excluded from this research project?

(b) Are there any other topics that should be included in this research project?

Next steps

39. If the IASB agrees with the general direction proposed for the POD project, IASB staff would seek to commence relevant research immediately.
40. Initially our research would focus on the principles regarding the organisation, placement, format, and linkage of information as well as the objectives and boundaries of the notes as described in paragraphs 13 to 16 of this paper. Our expectation is that we would come back to the IASB in Q3 to provide the research results on these initial topics and would ask the IASB for preliminary views.

Appendix A

Work others have undertaken

Below is a table showing some of the work that others have undertaken with regard to disclosure. This is not an exhaustive list.

Organisation	Projects
AASB	Rethinking the Path from an Objective of Economic Decision Making to a Disclosure and Presentation Framework
ANC	Proposal to simplify accounting obligations for ‘small listed companies’ in Europe
CFA Institute	Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust, and Volume
EDTF	Enhancing the risk disclosures of banks
EFRAG, FRC, ANC	Towards a disclosure framework for the notes
ESMA	Considerations of materiality in financial reporting
FASB	Disclosure Framework
FRC	Thinking about disclosures in a broader context ; and Cutting Clutter: Combating clutter in annual reports
IAASB	The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications
ICAEW	Financial Reporting Disclosures: Market and Regulatory Failures
ICAS/NZICA	Losing the Excess Baggage
KPMG	Disclosure in the balance: Investors’ perspective on information streamlining
The Lab	Various (including net debt, operating and investing cash flows, presentation of market risk disclosures, etc.)