

STAFF PAPER

June 2014

REG IASB Meeting

Project	Conceptual Framework		
Paper topic	Presentation and disclosure—communication aspects		
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Purpose of paper

1. This paper considers the communication aspects of presentation and disclosure for inclusion in the forthcoming *Conceptual Framework* Exposure Draft.
2. This paper belongs to the series of papers on the presentation and disclosure section of the *Conceptual Framework*. Materiality is discussed in Agenda Paper 10G for this month's meeting. The staff plan to present to the IASB a paper that discusses the remaining aspects of presentation and disclosure in July 2014.

Structure of paper

3. This paper discusses:
 - (a) communication principles and disclosure objectives (paragraphs 5–29);
and
 - (b) financial statements in an electronic format (paragraphs 30–34).

Summary of staff recommendations

4. The staff recommend the following:
 - (a) to reconfirm the proposal in the Discussion Paper that each Standard should have a clear objective for disclosure and presentation requirements;

- (b) to reconfirm the proposal in the Discussion Paper that the IASB should develop disclosure and presentation requirements that promote effective communication of useful financial information;
- (c) to include in the *Conceptual Framework* the communication principles proposed in the Discussion Paper which are primarily directed at the IASB and discuss how they relate to the qualitative characteristics. Specifically disclosure requirements should seek to:
 - (i) promote the disclosure of useful information that is entity-specific;
 - (ii) result in disclosures that are clear, balanced and understandable;
 - (iii) avoid duplication of the same information in different parts of the financial statements;
 - (iv) optimise comparability without compromising the usefulness of the information disclosed; and
- (d) not to include in the *Conceptual Framework* a discussion about financial statements in an electronic format.

Communication principles and disclosure objectives

Discussion Paper

5. The Discussion Paper sought to establish presentation and disclosure as a tool that promotes effective communication of useful financial information. It emphasised that information should be relevant and that effective communication of that information should reflect the qualitative characteristics of faithful representation, understandability and comparability.
6. Accordingly, the Discussion Paper proposed that each Standard that proposes presentation and disclosure requirements should have clear disclosure objectives that would guide entities in determining which disclosures should be provided in the financial statements.
7. The Discussion Paper proposed the following guiding principles for presentation and disclosure:

- (a) disclosure guidance in Standards should seek to promote presentation and disclosure in the financial statements as a form of communication, as opposed to a mechanism whose sole purpose is compliance with specific requirements of Standards; and
 - (b) the IASB should develop guidance that promotes effective communication of useful financial information.
8. The Discussion Paper also proposed specific communication principles that the IASB should consider when it sets disclosure requirements. Specifically, the Discussion Paper proposed that disclosure requirements should:
- (a) seek to promote the disclosure of useful information that is entity-specific;
 - (b) result in disclosures that are clear, balanced and understandable;
 - (c) enable an entity to organise disclosures in a manner that highlights to a user of financial statements what is important;
 - (d) result in disclosures that are linked and help users of financial statements understand the relationship between information provided within and outside financial statements and permit cross-referencing;
 - (e) not result in the duplication of the same information in different parts of the financial statements;
 - (f) seek to optimise comparability without compromising the usefulness of the information disclosed.

Disclosure Initiative

9. Since the publication of the Discussion Paper, the IASB has made progress in its Disclosure Initiative, a collection of Standards-level projects exploring presentation and disclosure. The developments that are relevant to the analysis of the communication principles in the Discussion Paper are discussed below.

Principles of Disclosure

10. The IASB has agreed the scope of its Principles of Disclosure project under the Disclosure Initiative. In that project, the IASB will comprehensively consider

principles for the organisation, placement, format and linkage of information in the notes to the financial statements. For example, the IASB will consider the circumstances in which cross-references, including to information outside financial statements, are appropriate.

11. In conducting this research, the IASB will consider the feedback received on the communication principles proposed in the Discussion Paper and consider whether and how those principles could be incorporated at the Standards-level to help guide entities in presenting and disclosing information in the financial statements.

Amendments to IAS 1

12. In March 2014, the IASB published an Exposure Draft of proposed amendments to IAS 1 *Presentation of Financial Statements*. The objective of the proposed amendments is to clarify IAS 1 to ensure that an entity is able to use judgement when preparing its financial statements. For example, the amendments clarify that entities have flexibility as to the order in which they provide the notes to the financial statements, but emphasise that an entity should consider understandability and comparability when deciding on that order.

Feedback received on the Discussion Paper

13. The Discussion Paper did not contain an explicit question as to whether each Standard that sets out presentation and disclosure requirements should have a disclosure objective. Consequently, little feedback was received on this specific proposal. However, some respondents expressed support for providing disclosure objectives in the Standards.
14. Many respondents to the Discussion Paper commented on the proposal to include communication principles in the *Conceptual Framework*. Many of those who commented agreed with including communication principles in the *Conceptual Framework* and with the specific communication principles proposed. Some believed that some or all of the communication principles would be better placed in a Standard, such as IAS 1, rather than the *Conceptual Framework*.
15. Some respondents believed that the communication principles should be better linked with the qualitative characteristics of useful financial information or the

objective of general purpose financial reporting. A few respondents suggested that the communication principles are not needed because the *Conceptual Framework* already discusses qualitative characteristics of financial information.

16. Respondents rarely commented on the specific communication principles proposed in the Discussion Paper. However, some respondents commented on the use of cross-referencing with a few suggesting that the IASB should provide guidance on when cross-referencing is appropriate and encourage cross-referencing in those cases. A few respondents believed that the use of cross-referencing could reduce duplication between financial statements and disclosures outside financial statements. A few others, particularly auditors, expressed concerns about cross-referencing to unaudited information.
17. Some respondents suggested other communication principles that the IASB should include in the *Conceptual Framework*. For example, those respondents suggested that the IASB should:
 - (a) periodically review disclosure requirements and remove the requirements that are no longer relevant;
 - (b) explicitly state that disclosure of immaterial information is not required because such information reduces understandability;
 - (c) require entities to highlight particularly important entity-specific information at the beginning of the notes;
 - (d) require more disclosures about uncertainty in measurement.

Staff analysis

18. This section is structured as follows:
 - (a) Presentation and disclosure as a communication tool (paragraphs 19–20)
 - (b) Disclosure objectives (paragraph 21)
 - (c) Communication principles (paragraphs 22–28):

Presentation and disclosure as a communication tool

19. The staff note that many respondents to the Discussion Paper supported including communication principles in the *Conceptual Framework*. This is consistent with the feedback from the *Discussion Forum—Financial Reporting Disclosure*. Preparers and investors at the *Discussion Forum* agreed that financial reports are an important communication tool that should enable preparers ‘to tell the story’ and investors ‘to hear the story’.
20. Consequently, the staff think that the *Conceptual Framework* Exposure Draft should reconfirm the idea in the Discussion Paper that presentation and disclosure are communication tools. Consequently, the IASB should develop requirements that promotes effective communication of useful financial information.

Disclosure objectives

21. Likewise, the staff think that including a disclosure objective in each Standard that sets out disclosure and presentation requirements as proposed in the Discussion Paper would be helpful because:
- (a) it is consistent with the principles-based approach in IFRS;
 - (b) presentation and disclosure of information is entity-specific and a clear disclosure objective (rather than solely a set of detailed requirements) will provide entities with the flexibility to present and disclose information in a way that is useful to users.

Communication principles

22. The communication principles suggested in the Discussion Paper were derived from the qualitative characteristics of useful financial information. However, some respondents to the Discussion Paper stated that the link between the communication principles and the qualitative characteristics of useful information should be enhanced.
23. The staff agree with these respondents. Enhancing the link between effective communication through presentation and disclosure and the qualitative characteristics of useful financial information will better articulate how presentation and disclosure contributes to the overall objective of financial reporting. The table below paragraph 27 discusses, for those communication

principles the staff consider should be in the *Conceptual Framework*, how those communication principles are linked to the qualitative characteristics of useful financial information.

24. In addition, some respondents stated that some of the communication principles suggested in the Discussion Paper would be more appropriately placed in a Standard rather than in the *Conceptual Framework*. We think this is because some of the communication principles are more relevant to the application of the presentation and disclosure requirements, ie the preparation of financial statements by entities, rather than the development of requirements by the IASB. The staff agree that some of the communication principles proposed in the Discussion Paper focus more on the preparation of the financial statements rather than developing presentation and disclosure requirements.
25. The staff note that the Disclosure Initiative Principles of Disclosure project will consider principles dealing with communication and placement of information and feedback received on the Discussion Paper. In addition, the staff note that the amendments to IAS 1 proposed under the Disclosure Initiative also capture some of the principles outlined in the Discussion Paper. For example, those amendments propose to clarify that entities have flexibility in the order in which they present the notes.
26. Because the Conceptual Framework does not impose requirements on entities, the staff recommend that communication principles primarily targeted at entities should be further explored in the Disclosure Initiative and potentially included in relevant Standards. Communication principles primarily targeted at the IASB should be included in the *Conceptual Framework* Exposure Draft.
27. The following table provides staff analysis of whether the communication principles proposed in the Discussion Paper should be included in the *Conceptual Framework* or whether they are better considered in a relevant Standard.

Communication principle proposed in the Discussion Paper	Conceptual Framework or Standards-level?
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Communication principle proposed in the Discussion Paper	Conceptual Framework or Standards-level?
<p>Seek to promote the disclosure of useful information that is entity-specific.</p>	<p>Relevant to both the IASB in setting presentation and disclosure requirements and entities in preparing financial statements. The presentation and disclosure requirements in Standards should enable entities to provide entity-specific disclosures and discourage boilerplate disclosures or a checklist approach to disclosure (ie the disclosures should be relevant). Entities should seek to provide entity-specific disclosures that ‘tell the story’.</p> <p>Accordingly, the staff think that this principle should be included in the <i>Conceptual Framework</i> Exposure Draft.</p> <p>The staff think that this principle reflects the qualitative characteristic of relevance.</p>
<p>Result in disclosures that are clear, balanced and understandable.</p>	<p>Entities have the primary responsibility for ensuring that disclosures are clear, balanced and understandable.</p> <p>However, the IASB also has a role to play in ensuring that the Standards promote the disclosure of clear, balanced and understandable information. Accordingly, the staff think that this principle should be included in the <i>Conceptual Framework</i> Exposure Draft.</p> <p>The staff think that this principle reflects the qualitative characteristics of faithful representation and understandability.</p>
<p>Enable an entity to organise disclosures in a manner that highlights to users of financial statements what is important.</p>	<p>Organisation of disclosures is the responsibility of entities and therefore any guidance about organising disclosures would be better placed at a Standards-level.</p> <p>In addition, the staff note that the proposed amendments to IAS 1 clarify that an entity has flexibility in the order of the notes to the financial statements and that related information can be disclosed together. Therefore, there is little benefit in duplicating this guidance in the <i>Conceptual Framework</i>.</p>

Communication principle proposed in the Discussion Paper	Conceptual Framework or Standards-level?
<p>Result in disclosures that are linked and that help users of financial statements understand the relationships between information provided within and outside financial statements and permit cross-referencing.</p>	<p>This principle relates to the organisation of disclosures and preparation of financial statements as opposed to setting disclosure requirements.</p> <p>In addition, the staff note that the proposed amendments to IAS 1 clarify that an entity has flexibility in the order of the notes to the financial statements and that related information can be disclosed together. Therefore, there is little benefit in duplicating this guidance in the <i>Conceptual Framework</i>.</p> <p>The staff also agree with respondents that there needs to be further guidance for entities about when cross-referencing is appropriate. The staff note that the use of cross-referencing is being researched in the Disclosure Initiative Principles of Disclosure project. Consequently, the staff propose that the <i>Conceptual Framework</i> should not include a discussion about cross-referencing, unless work on that project highlights the need.</p>
<p>Not result in the duplication of the same information in different parts of the financial statements.</p>	<p>This principle is relevant to both the IASB in setting the presentation and disclosure requirements and entities in preparing financial statements.</p> <p>The IASB should review existing IFRSs when developing new disclosure requirements to avoid duplication and unnecessarily lengthy disclosures whereas entities should ensure that there is minimal duplication of information within financial statements.</p> <p>The staff think that this communication principle reflects the qualitative characteristic of understandability.</p>
<p>Seek to optimise comparability without compromising the usefulness of the information disclosed.</p>	<p>This principle is relevant to both the IASB in setting the presentation and disclosure requirements and entities in preparing financial statements.</p> <p>This communication principle highlights the potential trade-off between comparability and understandability in setting presentation and disclosure requirements and is therefore relevant to the IASB. It could also encourage entities to follow industry best practice to improve comparability if that is relevant.</p> <p>The staff think that this communication principle relates to the enhancing qualitative characteristics of comparability and understandability.</p>

Additional communication principles

28. The staff think that the suggestions made by respondents for additional communication principles relate to application of the *Conceptual Framework* and, therefore, are more appropriate for consideration outside of the *Conceptual Framework*. The additional suggestions for communication principles will be considered in the Principles of Disclosure project.

Staff recommendations

29. The staff recommend:
- (a) to reconfirm the proposal in the Discussion Paper that each Standard should have a clear objective for disclosure and presentation requirements;
 - (b) to reconfirm the proposal in the Discussion Paper that the IASB should develop disclosure and presentation requirements that promote effective communication of useful financial information; and
 - (c) to include in the *Conceptual Framework* the communication principles proposed in the Discussion Paper which are primarily directed at the IASB and discuss how they relate to the qualitative characteristics. Specifically disclosure requirements should seek to:
 - (i) promote the disclosure of useful information that is entity-specific;
 - (ii) result in disclosures that are clear, balanced and understandable;
 - (iii) avoid duplication of the same information in different parts of the financial statements; and
 - (iv) optimise comparability without compromising the usefulness of the information disclosed.

Question 2

Does the IASB agree:

- to reconfirm the proposal in the Discussion Paper that each Standard should have a clear objective for disclosure and presentation requirements;
- to reconfirm the proposal in the Discussion Paper that the IASB should develop disclosure and presentation requirements that promote effective communication of useful financial information; and
- to include in the *Conceptual Framework* the communication principles proposed in the Discussion Paper which are primarily directed at the IASB and discuss how they relate to the qualitative characteristics? The specific communication principles are shown in paragraph 29(c)

Financial statements in an electronic format

Discussion Paper

30. The Discussion Paper suggested that, when developing presentation and disclosure requirements, the IASB may need to consider the impact of technology and to support advances in its application and wider use. It suggested possible aspects that the IASB could consider:
- (a) flexibility in the order and level of aggregation of information; and
 - (b) consistent use of terminology, totals and subtotals so that the relationships between different disclosure items and presentation items can be precisely identified and can therefore be faithfully represented in an electronic format.

Feedback received

31. The Discussion Paper did not contain a question on these proposals and consequently the IASB received little feedback.
32. Although supported by a few respondents, the feedback that the IASB did receive generally suggested that a discussion about the electronic format of financial statements should not be included in the *Conceptual Framework*. Reasons given by respondents include:

- (a) it is a specific technical issue with no direct interrelation to IFRSs;
- (b) the method of communication should be considered by preparers and regulators rather than the IASB;
- (c) the format of delivery should remain at the entity’s discretion; and
- (d) there is a risk of over-constraining standard-setting and the application of Standards to fit to the format and language of the tool.

Staff analysis

33. The staff do not think that a discussion about financial statements in an electronic format should be in the *Conceptual Framework* Exposure Draft because:
- (a) the IASB does not specify the means by which financial information is delivered (ie electronic or written);
 - (b) no other forms of delivery are discussed in the *Conceptual Framework*; and
 - (c) financial statements are delivered and consumed in different formats and so considering only certain formats when setting presentation and disclosure requirements would not be appropriate.

Staff recommendation

34. The staff recommend not to include in the *Conceptual Framework* a discussion about financial statements in an electronic format.

Question 3

Do you agree that the *Conceptual Framework* Exposure Draft should **not** include a discussion about financial statements in an electronic format?

Appendix A

- A1. This appendix shows some of the other comments raised by a few respondents.
We do not intend to discuss these comments at this meeting.

Comment raised	Staff response
(a) It should be clearer how the IASB intends to use the communication principles and how they will assist in setting Standards.	If communication principles are linked with the qualitative characteristics then their intended use in standard setting will be clearer.
(b) The scope of the communication principles should also include other sections in the <i>Conceptual Framework</i> and other areas of the annual report.	The communication principles are an application of the qualitative characteristics to presentation and disclosure. The qualitative characteristics apply to other sections in the <i>Conceptual Framework</i> .
(c) The communication principles should be linked with the other parts of the presentation and disclosure section (materiality and presentation and disclosure more broadly).	Will consider this during drafting of the presentation and disclosure section.
(d) The communication principles proposed in the Discussion Paper are not sufficient to create a robust disclosure framework.	The communication principles in the <i>Conceptual Framework</i> are intended to be high-level principles rather than a comprehensive disclosure framework.

A2. In addition, a few respondents raised further comments about the specific communication principles suggested in the Discussion Paper.

Communication principle	Feedback	Staff response
Disclosure of entity-specific information	<ul style="list-style-type: none"> • Business model should be considered when considering entity-specific disclosures • Entity-specific information is an application issue for the reporting entity and regulators 	<ul style="list-style-type: none"> • The notion of business model will be discussed by the IASB in July • Agree that entity-specific information should be addressed by the reporting entity and regulators, however the IASB should set Standards which enable the disclosure of entity-specific information
Clear, balanced and understandable disclosure	<ul style="list-style-type: none"> • This language is inconsistent with paragraph 17(b) of IAS 1 • Disclosures should also be concise 	<ul style="list-style-type: none"> • The wording in IAS 1 reflects the pre-2010 version of the <i>Conceptual Framework</i>. The staff will ask the IASB to consider the implications of this and other wording differences in a paper for a future meeting. • The notion that disclosures should be concise could be captured by this communication principle, but we will consider this point in drafting.
Disclosures organised in a manner that highlights what is important	<ul style="list-style-type: none"> • Disclosures should be organised and ordered by risk 	<ul style="list-style-type: none"> • The proposed communication principles would give the IASB the flexibility to develop risk based disclosures if such an approach is considered appropriate.
Disclosure guidance should not result in the duplication of the same information in different parts of the financial statements	<ul style="list-style-type: none"> • Duplication is more of a problem between financial statements and financial reports rather than within financial statements 	<ul style="list-style-type: none"> • Research into cross-referencing is being undertaken in the Principles of Disclosure project in the Disclosure Initiative.

