



European Financial Reporting Advisory Group

**Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure***

# **Feedback to constituents – EFRAG Final Comment Letter**

**November 2017**

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## Introduction

### Objective of this feedback statement

This feedback statement summarises the main comments received by EFRAG on its draft comment letter in response to the IASB’s

Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure* (‘the IASB DP’) and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG’s final comment letter.

### Background to the IASB DP

The main objective of the IASB DP is to identify disclosure issues and develop new, or clarify existing, disclosure principles in IFRS Standards to address those issues and to:

- help entities to apply better judgement and communicate information more effectively;
- improve the effectiveness of disclosures for the primary users of financial statements; and
- assist the IASB to improve disclosure requirements in IFRS Standards.

The IASB DP is likely to result either in amendments to parts of IAS 1 *Presentation of Financial Statements* or in the creation of a new general disclosure standard to replace relevant parts of IAS 1. The project might also result in the development of some non-mandatory guidance (such as educational material).

Further details are available on the EFRAG [website](#).

### EFRAG’s draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 8 June 2017. In the draft comment letter, EFRAG expressed support for the objectives of the IASB DP and the overall Disclosure Initiative project, acknowledged that the disclosure problem is multifaceted and that requirements in IFRS Standards are not the only cause.

However, EFRAG noted that stakeholders have already undertaken extensive efforts and initiatives to address behavioural issues (application of materiality and communication). EFRAG did not oppose the IASB reinforcing these initiatives with its own guidance, but considered that that the additional benefits and insights in these areas may be limited and that they should not be the primary focus of the next phases of the project.

The primary focus of the IASB for the next phases of this project should be to tackle disclosure overload. In EFRAG's tentative view, this would require a holistic standards-level review to:

- develop a coherent and comprehensive but concise package of disclosure requirements; and
- remove any disproportionate/redundant requirements.

EFRAG considered that the standards-level review is the most critical remaining element of the Disclosure Initiative.

Interactions between the IASB DP and other current IASB projects (Primary Financial Statements, Materiality, and the Conceptual Framework) were seen as a major concern.

EFRAG was also concerned about the limited reach of the proposals in the IASB DP in other areas. In EFRAG's view, the Principles of Disclosure project should not limit its focus to the structure of the notes or the location of information but rather aim to develop principles to identify why, when and where information should be disclosed. The present limited scope could result in over-prescriptive guidance and could fail to achieve the objectives of the Disclosure Initiative to reduce clutter and improve disclosure effectiveness.

EFRAG also regretted that a number of issues identified in the Discussion Paper *Towards a Disclosure Framework for the Notes*,

published by EFRAG, the Autorité des Normes Comptables (ANC) and the Financial Reporting Council (FRC) in 2012 (the 'EFRAG/ANC/FRC DP'), are not addressed in the IASB DP, including:

- the boundaries of the financial statements i.e. information that should be provided in financial statements and information that belongs outside financial statements;
- the impact of technology on the presentation of financial statements and on disclosures; and

In summary, EFRAG encouraged the IASB to:

- prioritise the standards-level review of disclosure requirements to identify any requirements that are excessive or redundant and take appropriate steps to address those requirements;
- explain how the guidance in the IASB DP relates to other IASB projects and how these projects will be effective in tackling the 'disclosure problem';
- consider the implications of developments in technology on the disclosure problem and on the presentation of financial statements in general in greater depth; and
- expand the tiers of disclosure requirements approach proposed by the NZASB staff.

#### **Comments received from constituents**

EFRAG received 13 comment letters from constituents. These comment letters are available on the EFRAG [website](#).

The comment letters came from national standard setters, accounting organisations, associations of preparers, a regulator and an Investment banking association.

Overall, respondents expressed support for most of EFRAG's tentative views as expressed in the draft comment letter and suggested the following improvements:

- emphasise the acknowledgement that the disclosure problem is multi-faceted (including behavioural aspects that the IASB cannot address alone) and that the disclosure overload is not the only issue although it should be given due consideration;
- in doing the standard-level review of disclosure requirements, give more consideration to users' needs and whether and how they use the information provided by IFRS Standards in order not only to determine whether some requirements are disproportionate or redundant but also whether there is any information that would be helpful but is not currently provided in the financial statements;
- better emphasise the effects that the increasing use of Technology may have on the issues addressed by the IASB DP;
- clarify certain of the principles of communication in the IASB DP;
- stress that there is the risk that guidance on formatting, if too prescriptive, may reduce the willingness of entities to take more innovative approaches to the presentation of their financial information; and
- Regarding the issue of cross-references, reinforce concerns about the need to preserve the level of accessibility and the

level of assurance of the information and provided some examples of specific situations where cross-references are used.

Some respondents disagreed with EFRAG's tentative view that non-IFRS information should be prohibited if it is so inconsistent or in conflict with IFRS Standards that it misleads or detracts from understandability. Instead the IASB should focus on providing principles to help entities determine when the use of non-IFRS information is appropriate and does not undermine IFRS information.

Some respondents suggested that EFRAG caution the IASB against the prohibition of specific terms to describe unusual or infrequently- occurring items that would not translate well in other languages. Instead they called for principles to guide the presentation of such items; and

### **EFRAG's final comment letter**

EFRAG issued its [final comment letter](#) on 12 October 2017.

In its final comment letter, EFRAG retained most of its initial views. The following main changes were made to the draft comment letter:

- clarify that although it is acknowledged that the disclosure problem is multifaceted, a higher priority should be given by the IASB in the next steps of the project to a comprehensive review of standards-level requirements;
- highlight that not all factors identified as contributing to the disclosure problem can be addressed by the IASB alone;
- stress that more consideration should be given to users' needs and how they currently use the information in the financial statements and explore whether there is any

information that would be helpful but is not currently provided in the financial statements. In doing so, that the IASB should consider the balance between benefits of the information to users and costs to preparers of providing that information;

- remove the suggestion that the IASB should prohibit the use of certain non-IFRS information but instead emphasise the need to ensure that any non-IFRS information is fairly presented in a way that is transparent and not misleading.

## Detailed analysis of issues, comments received and changes made to EFRAG's final comment letter

### EFRAG's tentative views expressed in the draft comment letter and constituents' comments

### EFRAG's response to constituents' comments

#### Overview of the 'disclosure problem' and the objective of the IASB DP

##### *Proposals in the IASB DP*

The IASB DP identified three main concerns about information contained in financial statements (collectively referred to as the disclosure problem):

- (a) not enough relevant information;
- (b) irrelevant information; and
- (c) ineffective communication of the information provided.

The IASB considered that the main causes of the disclosure problem are:

- (a) difficulties in applying judgement when deciding what information to disclose in financial statements and how to organise and communicate that information;
- (b) difficulties arising from behavioural issues, observing that some entities, auditors and regulators appear to approach financial statements as only compliance documents;
- (c) lack of guidance on the content and structure of the financial statements;
  - (a) the absence of clear disclosure objectives in IFRS Standards; and
  - (b) long lists of prescriptive disclosure requirements.

##### *EFRAG's final position*

Considering the feedback received from respondents, EFRAG retained its tentative position supporting the aims of the IASB DP and agreeing with the description of the 'disclosure problem' insofar as it was acknowledged that the problem is multifaceted, includes behavioural aspects and that the requirements in IFRS Standards are not the only root cause. EFRAG also highlighted that not all factors identified as contributing to the disclosure problem can be addressed by the IASB alone?

EFRAG emphasised that, in the next steps of the project, a high priority should be given by the IASB to a comprehensive review of standards-level requirements. The review should, in particular, aim to identify and remove any disclosure requirements that are disproportionate or redundant. In doing so, consideration should be given to users' needs and how they currently use the information in the financial statements.

Lastly, EFRAG reiterated its regrets that a number of other issues identified in its 2012 Discussion Paper *Towards a Disclosure Framework for the Notes* had not been addressed in greater depth in the IASB DP, in particular the boundaries of the financial statements, the effects of technology on financial reporting, and the context of Wider Corporate Reporting.

## **EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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### *EFRAG’s tentative position*

EFRAG did not disagree with the description of the ‘disclosure problem’ in the IASB DP insofar as it was acknowledged that the problem is multifaceted and that the requirements in IFRS Standards are not the only root cause. However, EFRAG considered that the IASB DP’s description lacks sufficient emphasis or focus to provide a clear sense of direction for the next phases of the project.

EFRAG also noted that the Disclosure Initiative commenced several years ago in response to concerns about disclosure overload and that stakeholders have since undertaken extensive efforts and initiatives to address behavioural issues. These includes efforts to improve the application of materiality to financial statement disclosures and to communicate financial statement information more effectively. EFRAG was not opposed to the IASB reinforcing these initiatives with its own guidance. Nonetheless, EFRAG considered this should not be the primary focus of the next phases of the project.

In this context, EFRAG considered that the remaining aspect of the disclosure problem as of today is mainly one of overload and the IASB’s primary focus for the next phases of this project should be to tackle disclosure overload through a comprehensive review of standards-level requirements. The objective of this review should be to develop a clear, effective, coherent and comprehensive but concise package of disclosure requirements.

### *Constituents’ comments*

The majority of respondents agreed with EFRAG’s assessment that the disclosure problem is multi-faceted and encompasses behavioural aspects but that due consideration should be given by IASB to addressing the disclosure overload issue. One respondent noted that addressing the

## **EFRAG’s response to constituents’ comments**

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## **EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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overload issue first would also help address the other aspects of the disclosure problem as shifting away from complying with long lists of requirements would help entities focus on providing more relevant information and improve communication.

Most respondents also agreed with EFRAG that the standards-level review of existing disclosure requirements may have greater impacts on behaviour and, therefore, should not be delayed. However, some considered that the focus of that review should also be on the quality and clarity of the disclosures rather than just their length.

Some respondents considered that the IASB had not given enough consideration to the different ways in which users of financial statements use information both at present and how that use might evolve in the future and encouraged the IASB to do more research in this area.

Respondents generally agreed with EFRAG’s concerns about the lack of clarity in the overlap with other IASB projects, and the insufficient consideration of issues such as the impact of technology. Some respondents suggested the following issues should have been discussed on the IASB DP:

- Wider corporate reporting:
- the scalability of disclosures to the size of the entity applying IFRS Standards; and
- how to develop a more comprehensive view for disclosures of unrecognised elements.

## **EFRAG’s response to constituents’ comments**

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## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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### Principles of effective communication

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#### *Proposals in the IASB DP*

The IASB DP proposed a set of principles of effective communication that entities should apply when preparing information in financial statements. The IASB had 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.

This chapter also proposed that the IASB 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 of the IASB DP.

#### *EFRAG’s tentative position*

EFRAG agreed that effective communication of information in financial statements was highly important and took no issue with the particular proposed in the IASB DP. EFRAG considered that further work was needed to determine whether some of these principles could be developed into requirements to be included in a general disclosure standard. The other proposed communication principles (i.e. those that are not suitable to be included as standards-level requirements) should, if at all, be carried forward in illustrative examples or implementation guidance accompanying but not forming part of a general disclosure standard.

EFRAG also noted the IASB’s proposal to develop non-mandatory guidance on formatting and had similar questions over the likely effectiveness of such guidance. However, if such guidance is to be

## EFRAG’s response to constituents’ comments

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#### *EFRAG’s final position*

##### *Guidance on communication principles*

Considering the feedback received from respondents, EFRAG retained its tentative position supporting the proposed principles but called for the IASB to further consider whether some of the proposed principles could not be developed into requirements to be included in a disclosure standard. In addition, EFRAG stressed that clarifications to certain of the proposed principles would be needed to make them operational.

##### *Guidance on formatting*

Considering the feedback received from respondents, EFRAG retained its tentative position on formatting and included an additional observation regarding the risk that guidance on formatting may reduce the willingness of entities to take more innovative approaches to the presentation of their financial information.

## EFRAG's tentative views expressed in the draft comment letter and constituents' comments

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developed we suggested that it should be included in the non-mandatory guidance accompanying a standard.

### *Constituents' comments*

#### *Guidance on communication principles*

A majority of respondents generally agreed with EFRAG's tentative views that principles can improve communication but that further work was needed to determine whether some of the proposed principles in the IASB DP could be developed into requirements and others carried forward in illustrative guidance.

One respondent did not agree with EFRAG's tentative view that additional non-mandatory guidance will not bring substantial benefits, as in the respondent's jurisdiction, it had resulted in improvements in reporting. However, this respondent acknowledged non-mandatory guidance may not give sufficient prominence and weight to these principles. One respondent was concerned with the principle to 'optimise comparability' as the way information is prepared may be subject to various legal, institutional and cultural factors which are not all within an entity's control. One respondent considered that the principles that needed to be included in a general disclosure standard should be comparability, relevance and avoidance of duplication. One respondent suggested that the principle that information needs to be described 'simply and directly' should also refer to the need to be understandable and comprehensive, so that explanations are sufficient. This respondent also suggested that highlighted information needs to be balanced, so that users are not misled as a result of the emphasis given to certain information.

Lastly, several respondents noted that the importance of some of the principles identified may become less in a digital reporting era.

## EFRAG's response to constituents' comments

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**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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*Guidance on formatting*

Four respondents generally agreed with EFRAG’s tentative position that any guidance on formatting should be non-mandatory and should take into account developments in digital reporting, although one noted that this should not be a priority. One respondent expressed caution against overly prescriptive guidance on formatting and another assessed that such guidance is not necessary and may even stifle the willingness of entities to take more innovative approaches. Another respondent recommended further research on formatting. One respondent noted that some IFRS Standards already included formatting guidance such as a recommendation to use a tabular format. This respondent suggested that the IASB include guidance on formatting in the Conceptual Framework for it to be used when developing disclosure requirements.

**EFRAG’s response to constituents’ comments**

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## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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### Roles of the primary financial statements and the notes

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#### *Proposals in the IASB DP*

The IASB DP proposed 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 of the IASB DP;
- should not define ‘present’ (as meaning presented in the primary financial statements) or of ‘disclose’ (as meaning disclosed in the notes) but should instead be more disciplined in specifying the intended location when using these terms.

#### *EFRAG’s tentative position*

EFRAG welcomed the overall objective of providing additional guidance on the roles of the primary financial statements and the notes. However, EFRAG would have preferred a broader discussion about the relevance of the distinction between the primary financial statements and the notes in particular in a digital era) and expressed the following concerns:

- the proposed role of the primary financial statements focused too much on assets, liabilities etc. and too little on the objective of providing summarised financial information; and
- the proposed role of the notes does not clarify the boundaries of financial statements and appears to ignore or down-play certain

## EFRAG’s response to constituents’ comments

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#### *EFRAG’s final position*

Considering the feedback received, EFRAG retained its tentative position.

## **EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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sections contained in the notes (such as segment information or information on unrecognised assets and liabilities), which have information value in their own right.

### *Constituents’ comments*

Most respondents supported EFRAG’s initial assessment. One respondent noted that the proposed guidance was not particularly helpful in addressing the disclosure problem and was concerned that the notion of ‘primary’ financial statements could be misunderstood and urged the IASB to clarify that the quality of information in the notes, in particular the level of assurance, shall not be deemed different than the information presented on the face of the primary financial statements. One respondent considered that further discussion was needed as to whether the statement of cash flow and the statement of changes in equity should be part of the primary financial statements. One respondent further assessed that a too narrow definition of the roles could even hinder future technological changes and innovation in financial reporting. One respondent, while sharing most of EFRAG’s concerns on the proposed roles, assessed that the distinction between primary financial statements and notes was a secondary issue as financial statements must be considered as a whole.

## **EFRAG’s response to constituents’ comments**

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## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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### Use of cross-references

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#### *Proposals in the IASB DP*

The IASB DP proposed 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:

- it is provided within the entity’s annual report;
- 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
- it is clearly identified and incorporated in the financial statements by means of a cross-reference that is made in the financial statements.

The IASB DP suggests ways that entities could identify clearly the information necessary to comply with IFRS Standards that has been provided outside the financial statements.

#### *EFRAG’s tentative position*

EFRAG welcomed the provision of principle-based guidance in this area but considered that the IASB should take a step back and identify the issues associated with the use of cross-references. These issues could include the extent to which the financial statements should be a standalone document, the readability of the extensive package of information provided by entities to their users and the impact of digital reporting. Each of these issues could provoke a different response to the

## EFRAG’s response to constituents’ comments

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#### *EFRAG’s final position*

Considering the feedback received from respondents, EFRAG retained its tentative position supporting the provision of principle-based guidance on cross-referencing and reinforced the statement that the IASB should be cognisant of the audit, legal or regulatory issues that a broader use of cross-references could give rise to. In this context, EFRAG encouraged the IASB to further liaise with audit authorities and regulators, to assess the audit, legal and regulatory implications of the proposed guidance across a range of different jurisdictions.

EFRAG also recommended that the IASB illustrate how the proposal to allow the use of cross-reference only ‘if it makes the annual report as a whole more understandable’ would work in practice; and reported to the IASB the examples mentioned by constituents of specific situations where cross-references are used.

## **EFRAG's tentative views expressed in the draft comment letter and constituents' comments**

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use of cross-referencing and decisions should be taken in the light of the impact on a range of issues. In this context, further work would be needed, together with audit authorities and regulators, to assess the audit, legal and regulatory implications of the proposed guidance across a range of different jurisdictions.

EFRAG also considered that the any such guidance should remain principles-based rather than refer to specific documents such as the annual report (where the content may vary across jurisdictions and over time as electronic reporting becomes more predominant). EFRAG also expressed a concern that the proposed requirement to allow the use of a cross-reference only 'if it makes the annual report as a whole more understandable' will be difficult to implement.

### *Constituents' comments*

All but two of the respondents agreed with EFRAG's initial assessment. These two respondents considered that the IASB should not provide guidance on the use of cross-references, as in the respondents' view, financial statements should be fully readable and understandable on a standalone basis.

Most respondents agreed with EFRAG's tentative view that further work was needed to identify the issues associated with the use of cross-references. In particular it was considered essential to preserve the level of accessibility and the level of assurance (i.e. audit) of the information.

One respondent suggested that the IASB develop a general principle that information can be disclosed outside the financial statements when equivalent information is also required by local laws or regulations to be disclosed in another section of the annual report. One respondent suggested to broaden the concept of 'published at approximately the same date' used by the IASB: any information could be eligible if it is

## **EFRAG's response to constituents' comments**

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**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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published no later than the IFRS financial statements and is publicly available and up to date as of the reporting date.

Some respondents highlighted the impact that potential technological developments could have in this area. One of them also noted that it was not clear how the concept of cross-referencing would interact with the increased use of technology and in particular with the IASB’s Taxonomy project. One respondent suggested that only information that is not directly linked to items presented in the primary financial statements should be eligible for cross-referencing (e.g. segment information, transactions with related parties). This respondent also disagreed with EFRAG’s initial assessment that the proposed requirement to allow the use of a cross-reference only ‘if it makes the annual report as a whole more understandable’ could be difficult to implement.

Some respondents provided examples of situations where cross-references were currently used in their jurisdictions.

**EFRAG’s response to constituents’ comments**

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## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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### Inclusion of non-IFRS information in the financial statements

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#### *Proposals in the IASB DP*

The IASB DP proposed 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’ from information necessary to comply with IFRS Standards, but should include requirements about how an entity provides such information.

#### *EFRAG’s tentative position*

EFRAG acknowledged that the inclusion of non-IFRS information in financial statements was an important and complex issue to be addressed but considered that a more holistic approach would have been preferable than the fragmented approach used by the IASB across different projects

EFRAG also expressed concerns that the proposed guidance could lead to clutter unless targeted better. The primary focus should be on financial information that supplements IFRS information or provides an alternative depiction of some type. For this type of information EFRAG supported the approach proposed in the IASB DP. EFRAG also tentatively considered that non-IFRS information should be prohibited if it is so inconsistent or in conflict with IFRS Standards to extent that it misleads or detracts from understandability of IFRS information.

#### *Constituents’ comments*

Respondents generally agreed with EFRAG that guidance on the use of non-IFRS information was useful but that a more holistic approach would have been preferable than the fragmented approach used by the IASB across different projects. Most respondents also agreed that any new

## EFRAG’s response to constituents’ comments

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#### *EFRAG’s final position*

Considering the feedback received, EFRAG retained its tentative position, except for the view that non-IFRS information should be prohibited if it is so inconsistent or in conflict with IFRS Standards to extent that it misleads or detracts from understandability. Instead, EFRAG’s final comment letter emphasises:

- the need for the IASB to provide guidance to help entities ensure that any non-IFRS information is presented or disclosed in a manner that is clear and does not obscure or impair the understandability of IFRS information; and
- the consideration of laws and regulations that may require specific non-IFRS disclosures.

EFRAG also reported the concerns that an excessive use of non-IFRS information in the financial statements could create complexity and undermine the understandability of the financial statements.

## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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guidance in this area needs to be better targeted in order to avoid unnecessary clutter:

- Five respondents agreed with EFRAG that the primary focus for the guidance should be on financial information that supplements IFRS information and that information that is inconsistent with IFRS should not be allowed.
- Conversely three respondents disagreed with a principle that prohibits information that is inconsistent with IFRS Standards. One respondent considered that labelling information other than alternative performance measures as non-IFRS would not be useful. The other two suggested that it should be allowed if properly labelled.
- One respondent noted that the distinction between ‘non-IFRS information’, and ‘additional information necessary to comply with IFRS’ is not helpful.

Some respondents disagreed with EFRAG’s suggestion that that non-IFRS information should be prohibited if it is so inconsistent or in conflict with IFRS Standards that it misleads or detracts from the understandability of IFRS information. Instead these respondents emphasised the need for the IASB to provide guidance to help entities ensure that any non-IFRS information is presented or disclosed in a manner that is clear and does not obscure or impair the understandability of IFRS information. Some expressed concerns that an excessive use of non-IFRS information in the financial statements could create complexity and undermine the understandability of the financial statements.

One respondent suggested to remove the proposed requirements to provide a list of non-IFRS information as this would not provide further insight.

## EFRAG’s response to constituents’ comments

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## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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### Use of performance measures

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#### *Proposals in the IASB DP*

This chapter proposed guidance on the fair presentation of performance measures. The IASB’s preliminary views were that the presentation of an EBITDA subtotal using the “by nature” presentation and the presentation of an EBIT subtotal under “by nature” and “by function” comply with IFRS Standards. The IASB proposed to develop guidance on the presentation of unusual or infrequently occurring items within the Primary Financial Statements project.

#### *EFRAG’s tentative position*

EFRAG would have preferred a more holistic and comprehensive discussion on the use of EBIT/EBITDA measures and of the presentation of unusual or infrequently occurring items as these issues are largely unrelated to the main objective of the IASB DP and are addressed as part of the Primary Financial Statements project. Nevertheless, EFRAG considered that providing guidance on these issues may be appropriate considering their widespread use. EFRAG was not in a position, at this stage, to further comment on the usefulness of such guidance as the IASB had neither developed principles nor provided a comprehensive discussion. EFRAG considered that the discussion should not be restricted to unusual or infrequently occurring items but should consider more broadly why adjustments are made to performance reporting as required by IAS 1. Such adjustments are not only linked to the frequency or amounts of transactions but relate to other issues including underlying performance and organic growth. Finally, EFRAG agreed that a general disclosure standard should provide guidance as to how performance

## EFRAG’s response to constituents’ comments

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#### *EFRAG final position*

Considering the feedback received, EFRAG retained its tentative position and included a paragraph advising caution on the prohibition by the IASB of specific terms regarding unusual or infrequently occurring items, as the translation of these terms into languages other than English could lead to unforeseen consequences. Instead, EFRAG encouraged the IASB to focus on the placement of such information, rather than the label ascribed.

## **EFRAG's tentative views expressed in the draft comment letter and constituents' comments**

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measures can be fairly presented in financial statements and broadly agreed with the qualitative proposals in the IASB DP

### *Constituents' comments*

Respondents generally agreed with EFRAG's position that a more holistic approach on all aspects of the use of performance measures is needed to ensure this issue is addressed appropriately. They supported the general direction of the IASB DP on the issue to enhance comparability and understandability of commonly used performance measures.

Some respondents encouraged the IASB to better align the proposed guidance with ESMA guidance on the fair presentation of alternative performance measures. In particular, the IASB could incorporate the requirement to explain any changes to the calculation of performance measures over time and the reasons why these changes result in reliable and more relevant information on financial performance. The IASB should also consider the enforceability and auditability of the guidance that is issued.

One respondent, while agreeing with the IASB proposals, stated that it might be difficult to determine whether performance measures are displayed 'with equal or less prominence' than line items or subtotals in the primary financial statements, and called for further guidance. This respondent disagreed with the IASB proposal that an EBITDA sub-total should only be allowed when the statement of financial performance is presented by nature. In the view of this respondent, depreciation and amortisation could be presented as additional 'line items in a by-function statement of financial performance.

One respondent also suggested that IASB consider how the other primary financial statements, particularly the statement of financial position and

## **EFRAG's response to constituents' comments**

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## **EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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the statement of cash flows, would be affected regarding the depiction of unusual or infrequently occurring transactions and events.

One respondent disagreed with the IASB developing guidance on the use of terms such as ‘unusual’ or ‘infrequent’. This respondent considered that entities should be allowed to define these terms. The IASB should only require explanations and disclosures when the terms are used. Another respondent similarly advised caution on the prohibition of specific terms regarding unusual or infrequent items, as the translation of these terms into languages other than English can lead to unforeseen consequences.

One respondent noted that the IASB DP used a narrower scope to define the term ‘performance measure’ compared to the description of performance measure used in the IFRS Practice Statement *Management Commentary* and the general use of this term in practice. In the respondent’s view, performance measures can also contain quantitative information about the financial position and financial performance of the entity that is not reconcilable to amounts recognised in the primary financial statements. Therefore, the respondent considered it was important to reconsider the scope of the definition of the term ‘performance measure’ and to emphasise the fact that a reconciliation to IFRS measures may not always be possible, depending on the nature of the reported performance measure.

## **EFRAG’s response to constituents’ comments**

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## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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### Disclosure of accounting policies

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#### *Proposals in the IASB DP*

The IASB DP proposed that a general disclosure standard should explain the objective of providing accounting policy disclosures. The IASB DP explored alternatives for the location of accounting policy disclosures, with the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies.

#### *EFRAG’s tentative position*

EFRAG considered that guidance about disclosures of accounting policies and significant judgements and assumptions is useful but should not be overly prescriptive. Entities should have some flexibility to determine the form and level of disclosure that best meets users’ needs. EFRAG was of the view that the categorisation of accounting policies, as proposed in the IASB DP, needed further clarifications and that materiality should always be considered. The focus should be on disclosure of those accounting policies that relate to items, transactions or events that are material to the financial statements without always being necessary (referred to as Category 2), where judgement is most needed. Finally, EFRAG considered that, as a matter of principle, the IASB should not provide guidance on information that is not required by IFRS Standards (Category 3), because this information is not necessary for an understanding of the financial statements

#### *Constituents’ comments*

Respondents generally supported EFRAG’s initial views. They noted that the focus should be on entity-specific disclosures of accounting policies and that entities should be encouraged to minimise the description of

## EFRAG’s response to constituents’ comments

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#### *EFRAG final position*

Considering the feedback received, EFRAG retained its tentative position and:

- Added a statement that EFRAG has not formed a definitive view on the proposed presumption that entities ‘disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate’. EFRAG also encouraged the IASB to develop guidance that discusses alternative ways of organising the information on significant judgements and assumptions and describes the circumstances in which each alternative may be more useful.
- Stated that EFRAG is of the view that further consideration should be given as to whether accounting policies that are in Category 2 always needed to be disclosed in full, or whether a reference to the relevant IFRS Standard would be sufficient.

principles that are explained in IFRS Standards. The categorisation as stated in the IASB DP needed further work.

Some respondents considered that the focus should be on whether disclosure of accounting policies that relate to material items, transactions or events was always necessary.

The following additional input was provided:

- One respondent suggested more clarification regarding the link between the general requirement in IAS 1 to disclose significant accounting policies and specific disclosure requirements about accounting policies in other IFRS Standards.
- One respondent considered that guidance was not needed for Category 1 accounting policies. This respondent considered that the requirements in IAS 1 are sufficient and could be accompanied with more illustrative examples; possibly in the practice statement on Materiality.
- One respondent suggested that disclosures about changes of accounting policies should be given more prominence by being placed at the beginning of the notes.

Two respondents did not agree with the IASB DP's proposed presumption that entities 'disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate'. One of these respondents suggested that the IASB should better explain the relative merits of each presentation option.

A few respondents pointed out the lack of consideration of technology that may allow affect disclosure about accounting policies.

## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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### Centralised disclosure objectives

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#### *Proposals in the IASB DP*

The IASB DP proposed that centralised disclosure objectives could be used by the IASB as a basis for developing disclosure objectives and requirements in IFRS Standards that are more unified and better linked to the overall objective of financial statements.

The IASB identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised disclosure objectives and used as the basis for developing disclosure objectives and requirements in IFRS 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).

The IASB DP also discussed the possibility of locating all disclosure objectives and requirements in IFRS Standards within a single Standard or set of Standards for disclosures.

#### *EFRAG’s tentative position*

EFRAG supported the further exploration of how to achieve a more holistic approach in developing disclosure objectives. However, EFRAG considered that a necessary preliminary step would be to clarify the

## EFRAG’s response to constituents’ comments

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#### *EFRAG final position*

Considering the feedback received from respondents, EFRAG retained its initial view, and expanded the discussion on the respective merits of Method A and Method B.

## **EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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boundaries of the notes. EFRAG also considered that disclosure objectives would not be helpful if they are expressed too generically.

EFRAG supported further analysis of how disclosure requirements could be focused on the entity’s activities and business model (Method B) as this had the potential to provide improved information for users over the present practice of focusing on information about an entity’s assets, liabilities, equity, income and expenses.

EFRAG considered that the location of the disclosure requirements was not the primary issue. Instead, the IASB should ensure when developing new disclosure requirements, that it always holistically reconsiders all existing disclosure requirements in order to ensure that proposed additional disclosures are not inconsistent, excessive or redundant. Lastly, EFRAG saw pros and cons in grouping all disclosure requirements in a single standard.

### *Constituents’ comments*

#### *Developing a central set of disclosure objectives*

All respondents agreed with EFRAG’s tentative position supporting the further exploration by the IASB of how to achieve a more holistic and unified approach in developing disclosure objectives.

One respondent noted that the IASB should explain and justify individual disclosure requirements, so that all relevant parties (preparers, auditors, users and enforcers) understand the reason for the requirements.

Two respondents suggested that centralised disclosure objectives should be part of the Conceptual Framework. Another respondent specifically agreed with EFRAG’s tentative position that disclosure objectives will not be helpful if they are expressed too generically.

## **EFRAG’s response to constituents’ comments**

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## EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments

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Two respondents noted that this phase should be swiftly followed by rolling the principles out across all existing IFRS Standards, as in the respondent’s view, this will have the biggest impact in helping to address behaviours and the overall disclosure problem.

### *Proposed approaches to developing a central set of disclosure objectives*

Respondents generally did not express a strong preference in favour of Method A or Method B. One respondent, although seeing promise in Method B, supported Method A as it has a balance sheet focus consistent with the existing approach to recognition and measurement and would not require a radical rewrite of many existing IFRS Standards. However, Methods A and B should be further developed before a final decision is taken.

Another respondent considered that Method B might provide better bases for an entity to ‘tell its story’ in financial statements compared to Method A, which appeared to be a more compliance-focused approach. Moreover, a holistic approach for disclosure requirements and their objectives appeared to be more in line with Method B, because it does not focus on individual items or transactions.

### *Considering a single standard, or a set of standards, for disclosures*

Some respondents were not in favour of locating all disclosure objectives and requirements in a single standard. One respondent observed that this would encourage a checklist mentality. Another respondent considered that Method B would probably work best if related disclosures were packaged in a single Standard, or set of Standards, but reconsidering the location of disclosure guidance would trigger a bigger question about the

## EFRAG’s response to constituents’ comments

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**EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments**

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overall structure of other IFRS guidance, e.g. recognition and measurement guidance.

One respondent suggested that an aggregated set of disclosure principles be included in IAS 1 and more detailed objectives developed within each IFRS Standard.

*NZASB staff’s approach to drafting disclosure requirements*

Respondents were generally supportive of the approach developed by the staff of the NZASB.

One respondent was not completely convinced by the approach as it seems to imply that the requirements in different disclosure tiers also imply a different degree of materiality. This respondent suggested an alternative to the NZASB staff approach:

- (a) define a core set of note disclosure requirements in light of achieving comparability of IFRS financial statements among entities; and
- (b) provide more principle-based guidance regarding additional information that is relevant to an understanding of the primary financial statements (similar to paragraph 122(c) of IAS 1).

**EFRAG’s response to constituents’ comments**

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## Appendix 1: List of respondents

**Table 1: List of respondents**

<b>Name of constituent<sup>1</sup></b>	<b>Country</b>	<b>Type / Category</b>
Accountancy Europe	Europe	Accounting Organisation
Instituto de Contabilidad y Auditoría de Cuentas (ICAC)	Spain	National Standard Setter
The Institute of Chartered Accountants in England and Wales (ICAEW)	United Kingdom	Accounting Organisation
Danish Accounting Standards Committee (FSR)	Denmark	National Standard Setter
UK Financial Reporting Council (FRC)	United Kingdom	National Standard Setter
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
BusinessEurope	Europe	Association of preparers
Autorité des Normes Comptables (ANC)	France	National Standard Setter
Association for Financial Markets in Europe (AFME)	Europe	Investment Banking Association
European Securities and Markets Authority (ESMA)	Europe	Regulator
The Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
The European Federation of Financial Analysts Societies (EFFAS)	Europe	Association of Users

<sup>1</sup> Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.