

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

[Date]

Dear Mr Hoogervorst,

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

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure*, issued by the IASB on 30 March 2017 (the 'IASB DP').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG fully supports the aims of IASB's Principles of Disclosure project and the overall Disclosure Initiative. As expressed in EFRAG's response to the IASB's 2015 Agenda Consultation, in EFRAG's view the Disclosure Initiative is one of the most important of the IASB's active projects. In its response to the 2015 IASB Agenda Consultation, EFRAG stressed the importance of having a clear, effective, coherent and comprehensive but concise package of disclosure requirements. Further, EFRAG regretted that the Disclosure Initiative has only resulted in small amendments to standards so far whereas the main project has not yet reached standards-level stage. This lack of progress is disappointing, especially in the light of the substantial research conducted by EFRAG and other regional and national accounting standards bodies related to the disclosure problem.

EFRAG does not disagree with the description of the 'disclosure problem' in the IASB DP insofar as we acknowledge that the problem is multifaceted and that the requirements in IFRS Standards are not the only root cause. However, EFRAG considers 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 notes 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 include efforts to improve the application of materiality to financial statement disclosures and to communicate financial statement information more effectively.

EFRAG is not opposed to the IASB reinforcing these initiatives with its own guidance. Nonetheless, ~~EFRAG considers 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.~~

~~In this context,~~ EFRAG considers that the remaining aspect of the disclosure problem as of today is mainly one of overload. It is therefore concerning that the IASB DP makes no mention of the extent to which the proposals in the IASB DP might address concerns about disclosure overload.

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

The objective of this review should be to develop a clear, effective, coherent and comprehensive but concise package of disclosure requirements. This review should, in particular, aim to identify and remove any disclosure requirements that are disproportionate or redundant. ~~EFRAG considers that the standards-level review is the most critical remaining element of the Disclosure Initiative.~~

EFRAG encourages the IASB to further consider, when doing this review, how users currently use the information in the financial statements; to identify any areas of duplication, for example, different types of information used by different users but for the same purpose; and to explore whether there is any information that would be helpful but is not currently provided in the financial statements. In that respect, the IASB could develop disclosure objectives in a holistic way, in the context of the role and the boundaries of the notes and test some real-life disclosures to understand why users find certain information useful.

EFRAG is 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 regrets 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
- expanding the tiers of disclosure requirements approach (as proposed by the NZASB staff and as also reflected in the 'core and more' proposals in *The Future of Corporate Reporting* published by FEE (now Accountancy Europe) in October 2015).

Finally, EFRAG is concerned about the lack of clarity in the overlap with other IASB projects, in particular the interactions with the Materiality and Primary Financial Statements projects. We are concerned that a piecemeal approach may create confusion for constituents on the boundaries of the various projects and we recommend that the IASB address these issues comprehensively within a single project. Although we include some comments on these issues, we reserve the right to revise and expand our comments when addressing future due process documents issued by the IASB.

In summary, EFRAG encourages 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.

## Detailed comments

EFRAG's detailed comments and responses to the questions in the IASB DP are set out in the Appendix. A summary is provided in the paragraphs below.

### *Principles of effective communication*

EFRAG agrees that effective communication of information in financial statements is highly important. EFRAG also takes no issue with the particular principles proposed in the IASB DP (although we do note some tensions between certain of them and some existing standard-level requirements and we suggest certain clarifications to some of them). However, EFRAG considers that it would be helpful to obtain a better understanding of the information users find helpful and how that information is used, before establishing any principles of effective communication and/or disclosure objectives. Moreover, the effects of technology should be considered, as some of the principles may become less important in a digital reporting era.

Moreover, as explained above, EFRAG observes that some entities have already undertaken extensive efforts in this direction and that numerous sources of guidance are already available to assist them. Accordingly, EFRAG is not convinced that additional non-mandatory guidance of this type will bring substantial further insights or benefits. EFRAG ~~therefore~~ considers that further work is needed to determine whether some of these principles could be developed into requirements to be included in a general disclosure standard (which might in some cases require replacing or amending existing principles). 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 notes the IASB's proposal to develop non-mandatory guidance on formatting. EFRAG has similar questions over the likely effectiveness of such guidance. However, if such guidance is to be developed we again suggest that it should be included in the non-mandatory guidance accompanying a standard.

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

EFRAG welcomes the overall objective of providing additional guidance on the roles of the primary financial statements and the notes.

However, EFRAG has some specific concerns:

- the proposed role of the primary financial statements focuses too much on the elements (assets, liabilities, equity, income, expenses) and not enough on the overall objective of providing summarised information about financial performance and financial position; and
- the proposed role of the notes does not set the boundaries of the notes and appears to ignore or down-play certain sections contained in the notes (such as segment information or information on unrecognised assets and liabilities), which do not merely supplement or explain the information in the primary financial statements but have information value in their own right.

### *Location of information*

#### Disclosing IFRS information outside the financial statements

EFRAG acknowledges that the use of cross-references is already explicitly permitted in a few specific areas of IFRS Standards, and is applied more widely in practice in some jurisdictions. EFRAG welcomes the provision of principle-based guidance in this area but considers that the IASB should take a step back and identify the issues associated with the use of cross-references. These issues 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 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 is 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 considers that any resulting 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 is also concerned 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. and therefore, we suggest that the IASB illustrate how the proposed requirement would work in practice.

#### Providing information identified as non-IFRS within the financial statements

EFRAG acknowledges that the inclusion of non-IFRS information in financial statements is an important issue and also a complex one. The complexity arises in part from the challenge of distinguishing non-IFRS information from information that is not specified in IFRS Standards but is provided in accordance with its principles (e.g. additional information disclosed in order to provide a fair presentation in accordance with paragraph 17 of IAS 1 *Presentation of Financial Statements* or additional line items provided in accordance with paragraph 85 of IAS 1).

EFRAG further notes that some information that is (or could be viewed as) non-IFRS is provided in accordance with laws or regulations. This might include, for example, disclosure of employee numbers or audit fees. Disclosure of this type of information seems unproblematic and readily understandable. Similar comments apply to some common and well-understood sub-totals such as a gross profit sub-total.

EFRAG therefore considers that any new guidance in this area needs to be better targeted in order to avoid unnecessary clutter. The primary focus for the guidance should be on financial information that supplements IFRS information or provides an alternative depiction of some type. EFRAG supports the approach proposed in the IASB DP for this type of non-IFRS information, as we consider that such information should be distinguished from IFRS information and provided in a way that is transparent, understandable and does not detract from the understandability of the IFRS information.

EFRAG also acknowledges the reasons why the IASB DP does not propose a general prohibition on non-IFRS information and agrees with them, as such a prohibition may limit the ability of an entity to provide information that is relevant to users. EFRAG nonetheless considers that some information might be so inconsistent or in conflict with IFRS information that it is misleading or detrimental to the understandability of the financial statements (and that the proposals in the IASB DP would not then be a sufficient remedy). EFRAG considers that this type of information should be prohibited.

#### *Use of performance measures in the financial statements*

EFRAG would have preferred a more holistic and comprehensive discussion on the use of metrics such as EBIT/EBITDA, which are unrelated to the main objective of the IASB DP and are part of the Primary Financial Statements research project. Having the same topic subjected to two consultations runs the risk of contradictory feedback. In our opinion, any output from such consultations should only be considered as supplementary evidence, but should not drive the Primary Financial Statements project.

EFRAG would also have preferred a more holistic approach on unusual or infrequently occurring items in the context of the Primary Financial Statements project, which would look at all aspects of the issue, potentially including other adjustments made to performance figures. Nevertheless, EFRAG considers that providing guidance on the classification of items as unusual or infrequently occurring could be appropriate

considering their widespread use. EFRAG is not in a position, at this stage, to further comment on the usefulness of such guidance as the IASB has neither developed principles nor included a comprehensive discussion on the matter.

However, EFRAG considers that the discussion should not be restricted to unusual or infrequently occurring items but should consider more broadly why adjustments are made to the performance reporting required by IAS 1. Such adjustments are not only linked to the frequency or amounts of transactions but include wider issues such as underlying performance or organic growth.

Finally, EFRAG agrees that a general disclosure standard should provide guidance as to how performance measures can be fairly presented in financial statements and broadly agrees with the qualitative proposals in the IASB DP. However, EFRAG is concerned that the definition of performance measures is overly broad and could lead to boilerplate disclosures.

#### *Disclosure of accounting policies*

EFRAG considers that guidance about disclosure of accounting policies and significant judgements and assumptions is useful but should not be overly prescriptive as to their form and location. Entities should have some flexibility to determine the level of disclosure that most appropriately reflects users' needs.

EFRAG is of the view that the categorisation of accounting policies, as proposed in the IASB DP, needs 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 (Category 2), where judgement is most needed.

EFRAG considers that, as a matter of principle, the IASB should not provide guidance on information that is not required by IFRS Standards (Category 3), because it is not necessary for an understanding of the financial statements.

#### *Centralised disclosure objectives*

EFRAG supports the further exploration of how to achieve a more holistic and unified approach in developing disclosure objectives. However, EFRAG considers that a necessary preliminary step would be to clarify the boundaries of the notes. EFRAG also considers that disclosure objectives are not helpful if they are too generic.

[While acknowledging that Method A is consistent with the IASB's approach to developing recognition and measurement requirements in IFRS Standards and would require the least amount of additional work to implement,](#) EFRAG supports further analysis of how disclosure requirements could be focused on the entity's activities and business model as this has 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 considers that the question of the location of the disclosure requirements (i.e. a single standard or several disclosure standards) is 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 any proposed additional disclosures are not inconsistent, excessive or redundant. EFRAG sees pros and cons in grouping all disclosure requirements in a single standard. A single standard might promote the holistic approach referred to above but could become unwieldy and require frequent updates. However, EFRAG acknowledges that, in some cases, it may be useful to cover disclosures on related topics in a single standard.

If you would like to discuss our comments further, please do not hesitate to contact Hocine Kebli, Ioanna Chatzieffraimidou, Albert Steyn or me.

Yours sincerely,

Jean-Paul Gauzès  
**President of the EFRAG Board**

## Appendix - EFRAG's responses to the questions raised in the IASB DP

### Contents

SECTION 1 - Overview of the disclosure problem and the aim of the project.....	8
Question 1 .....	8
Question 2 .....	8
SECTION 2 - Principles of effective communication.....	12
Question 3 .....	12
SECTION 3 - Roles of the primary financial statements and of the notes .....	15
Question 4 .....	15
SECTION 4 - Location of information.....	18
Question 5 .....	18
Question 6 .....	20
Question 7 .....	20
SECTION 5 - Use of performance measures in the financial statements.....	23
Question 8 .....	23
Question 9 .....	23
SECTION 6 - Disclosure of accounting policies.....	26
Question 10 .....	26
SECTION 7 - Centralised disclosure objectives.....	28
Question 11 .....	28
Question 12 .....	28
Question 13 .....	28
SECTION 8 – NZASB staff's approach to drafting disclosure requirements in IFRS Standards..	31
Question 14 .....	31

## SECTION 1 - Overview of the disclosure problem and the aim of the project

### Question 1

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

Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?

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

### Question 2

Are there any other disclosure issues that the IASB has not identified in this Discussion Paper (sections 2–7) that you think should be addressed as part of the Principles of Disclosure project? What are they and why do you think they should be addressed?

EFRAG does not disagree with the description of the ‘disclosure problem’ in the IASB DP insofar as we acknowledge that the problem is multifaceted and that the requirements in IFRS [Standards](#) are not the only root cause. However, EFRAG considers 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 notes 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 is not opposed to the IASB reinforcing these initiatives with its own guidance. ~~Nonetheless, EFRAG considers 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.~~

~~In this context,~~ EFRAG considers that the remaining aspect of the disclosure problem as of today is mainly one of overload. It is therefore concerning that the IASB DP makes no mention of the extent to which the proposals in the IASB DP might address concerns about disclosure overload. EFRAG considers 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. ~~This review should, in particular, aim to identify and remove any disclosure requirements that are disproportionate or redundant. EFRAG encourages further research to understand how users currently use the information in the financial statements; to identify any areas of duplication, for example, different types of information used by different users but for the same purpose; and to explore whether there is any information that would be helpful but is not currently provided in the financial statement~~

EFRAG considers that the overall success or failure of the Disclosure Initiative will become evident only when this has been completed.



*Addressing the disclosure problem*

- 1 EFRAG welcomes the IASB's initiative to develop guidance in order to address the disclosure problem.
- 2 EFRAG does not disagree with the description of the 'disclosure problem' in the IASB DP insofar as the problem is multifaceted and acknowledges that the root causes go beyond the requirements in IFRS (and include behavioural issues). However, EFRAG notes that the Disclosure Initiative started 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 include efforts to improve the application of materiality to financial statement disclosures and to communicate financial statement information more effectively. EFRAG is not opposed to the IASB reinforcing these initiatives with additional guidance. ~~Nonetheless, EFRAG considers 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.~~
- 3 EFRAG considers that the remaining aspect of the disclosure problem as of today is mainly one of overload. It is therefore concerning that the IASB DP makes no mention of the extent to which the proposals in the IASB DP might address concerns about disclosure overload. EFRAG considers 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.
- 4 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), EFRAG acknowledged that the relevance of the notes to the financial statements has been reduced and noted two main areas for improvement of the quality of disclosures:
  - (a) avoiding disclosure overload through the disclosure of irrelevant information which may be caused both by excessive requirements in IFRS, and by ineffective application of materiality in preparation of the financial statements; and
  - (b) enhancing how disclosures are organised and communicated in the financial statements to make them easier to understand and to compare.
- 5 The EFRAG/ANC/FRC DP also noted that 'although reducing the length of the notes to financial statements is not the primary intent, a sharper focus on relevance will likely result in a reducing their volume, which is a legitimate expectation'.
- 6 EFRAG considers that, although many factors contribute to the disclosure problem, one of the reasons for unsatisfactory disclosure requirements in IFRS Standards is that these requirements have largely been developed on a standard-by-standard basis without taking an overall and holistic perspective.
- 7 In EFRAG's view, the project should not restrict 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. Otherwise, it could result in over-prescriptive guidance and could fail to achieve the objectives of the Disclosure Initiative to reduce clutter and improve disclosure effectiveness.
- 8 The question of whether excessive requirements exist in current IFRS Standards is not specifically addressed in the IASB DP. EFRAG understands that the IASB plans to conduct a comprehensive standards-level review of existing disclosure requirements using the principles developed in the IASB DP. However, EFRAG regrets that no specific timetable has been set for this and notes the substantial work related to the disclosure problem already undertaken by EFRAG and other regional and national accounting standards bodies that could be leveraged by the

IASB. We consider the standards-level review is now the most critical outstanding step in the Disclosure Initiative.

- 9 EFRAG considers that the objective of the standards-level review should be to develop a clear, effective, coherent and comprehensive but concise package of disclosure requirements. This requires a holistic approach. The review should in particular aim to identify and remove any disclosure requirements that are disproportionate or redundant.

*Issues not addressed in the IASB DP*

- 10 The EFRAG/ANC/FRC DP provided a number of suggestions in developing a Disclosure Framework. EFRAG considers that some of these proposals could have been considered more fully and regrets their exclusion from the IASB DP. Specifically, the IASB DP could have considered more fully:

- (a) the boundaries of the financial statements, i.e. the distinction between information that should be provided in financial statements and information to be provided in other forms of financial reporting outside financial statements;
- (b) the impact of technology on the presentation of financial statements and on disclosures; and
- (c) expanding the tiers of disclosure requirements approach (as proposed by the NZASB staff and as also reflected in the 'core and more' proposals in *The Future of Corporate Reporting* published by FEE (now Accountancy Europe) in October 2015).

11 EFRAG is concerned that insufficient consideration is given in the IASB DP of the different ways in which users use financial statements, both now and possible ways that they will be used in the future. For instance, while some users read the full financial statements, there is a larger group who view the financial statements as a reference document. EFRAG encourages further research to understand how users currently use the information in the financial statements; to identify any areas of duplication, for example, different types of information used by different users but for the same purpose; and to explore whether there is any information that would be helpful but is not currently provided in the financial statement. In that respect, the IASB could develop disclosure objectives in a holistic way, in the context of the role and the boundaries of the notes and test some real-life disclosures to understand why users find certain information useful.

412 EFRAG encourages the IASB to consider the implications of developments in technology on the disclosure problem and on the presentation of financial statements in general in greater depth. The lack of consideration of the effect of technological changes, which may affect the nature, structure and format of financial statements in the future, resulted in a focus on detailed issues which may be irrelevant or of less importance in the future. Similarly, too prescriptive requirements may hinder future innovation and progress in financial reporting. It may be, for instance, that financial reporting in digital form will permit a user to determine the level of detail that they wish to access either on particular areas of reporting or across the entire financial statements and the focus on the length of financial statements becomes less relevant. Consideration of technology would include the relationship between general purpose financial reporting and electronic filing; and how technology might affect the way financial information is delivered and accessed.

4213 Furthermore, there is significant overlap between the projects on the Conceptual Framework, Primary Financial Statements, Materiality and Principles of Disclosure. We have the following comments in relation to this overlap:

- (a) the definition and role of primary financial statements should be discussed in the project on the Conceptual Framework or Primary Financial Statements, instead of introducing the description in this IASB DP;
- (b) the role of the notes was discussed in the Conceptual Framework project, which implies that one proposal would be subjected to two consultations and run the risk of contradictory feedback;
- (c) the IASB has already discussed guidance on making judgements on materiality when preparing general purpose financial statements (including specific guidance on disclosures) as part of its Materiality Practice Statement project; and
- (d) while we understand that the IASB DP seeks initial feedback on clarifications related to EBIT, EBITDA and on unusual or infrequently occurring items to inform the Primary Financial Statements project, we consider that this may confuse stakeholders. In addition, in our opinion, any output from such consultations should only be considered as supplementary evidence, but should not drive the Primary Financial Statements project.

[1314](#) EFRAG notes that the overlap described above may create confusion for constituents on the boundaries of the various projects and suggests that the IASB address these issues comprehensively within a single project.

## SECTION 2 - Principles of effective communication

### Question 3

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

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

Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance? If you support the issuance of non-mandatory guidance, please specify the form of non-mandatory guidance you suggest and give your reasoning.

Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not? If you support the issuance of non-mandatory guidance, please specify the form of non-mandatory guidance you suggest and give your reasoning.

**EFRAG agrees that effective communication of information in financial statements is highly important. EFRAG also takes no issue with the particular principles proposed in the IASB DP (although we do note some tensions between certain of them and ~~with~~ some existing standard-level requirements and suggest clarifications to certain of them). However, EFRAG considers that it would be helpful to obtain a better understanding of the information users find helpful and how that information is used, before establishing any principles of effective communication and/or disclosure objectives. Moreover, the effects of technology should be considered, as some of the principles may become less important in a digital reporting era.**

~~Moreover~~**However**, EFRAG observes that entities have already undertaken extensive efforts in this direction and that numerous sources of guidance are already available to assist them. ~~Accordingly, EFRAG is not convinced that additional non-mandatory guidance of this type will bring substantial further insights or benefits.~~ EFRAG ~~therefore~~ considers that further work is needed to determine whether some of these principles could be developed into requirements to be included in a general disclosure standard (which might in some cases require replacing or amending existing principles). 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 notes the IASB's proposal to develop non-mandatory guidance on formatting and ~~has similar~~ questions ~~over~~ the likely effectiveness of such guidance. However, if such guidance is to be developed we again suggest that it should be included in the non-mandatory guidance accompanying a standard.

### *Guidance on communication principles*

~~1415~~ EFRAG agrees that effective communication of information in financial statements is highly important. As stated in the EFRAG/ANC/FRC DP, poor communication hinders the provision of quality information, especially within lengthy reports. Further, the EFRAG/ANC/FRC DP recognised the importance of financial statements as a tool to communicate information to users, rather than being seen

only as a compliance exercise and that principles of effective communication could improve the quality of disclosures. However, as the notes form part of 'telling the entity's story', it would be difficult to establish anything other than high-level generic principles.

- 16 EFRAG notes that some entities have already embarked on widespread efforts in this direction and that several sources of guidance are already available to assist them. ~~Therefore, EFRAG is not convinced that additional non-mandatory guidance of this type will bring considerable further insights or benefits.~~ EFRAG therefore considers that additional work is needed to decide whether some of these principles could be developed into requirements to be included in a general disclosure standard (which might in some cases require replacing or amending existing principles). We consider that this would provide the right level of authority to help tackle the behavioural problem outlined by the IASB. 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.
- 15 ~~In that regard, the IASB could consider the experience of jurisdictions such as the UK that have already implemented communication principles, some of which are backed by legislative requirements and are enforceable, and some of which are non-mandatory best practice.~~
- 17 EFRAG has no concerns with the purpose of the particular principles proposed in the IASB DP. ~~However, as indicated in the responses in Section 1, EFRAG considers that it would be helpful to obtain a better understanding of the information users find helpful and how that information is used, before establishing any principles of effective communication and/or disclosure objectives. Moreover, the effects of technology should be considered, as some of the principles may become less important in a digital reporting era.~~
- 1618 ~~although~~ ~~w~~ EFRAG also de notes some tensions between certain of them and ~~inconsistencies with~~ existing standards-level requirements and suggests clarifications to certain of them.
- 19 In particular, EFRAG agrees with the IASB that entities need to use judgement when applying these communication principles, including the trade-off between these principles. For example, if more emphasis is placed on making disclosures entity-specific and thereby providing more relevant information for users, then inevitably there has to be some ground given up on achieving comparability. In this respect, EFRAG encourages the IASB to add more guidance on the interaction between those two principles.
- 20 ~~However,~~ EFRAG notes that the principle of optimising comparability among entities may be difficult to apply in practice and that the IASB should explain the meaning of the term comparability 'among entities', as this could be interpreted in many ways (e.g. entities in the same industry, in the same jurisdiction).
- 21 Moreover, EFRAG encourages the IASB to clarify whether the principle that information should be 'linked when relevant to other information in the financial statements or to other parts of the annual report' to highlight relationships between pieces of information, includes the concept of cohesiveness. EFRAG also recommends that the IASB clarify that the principle that information needs to be 'described simply and directly' includes the need for information to be understandable and comprehensive, the principle that information needs to be 'organised in a way that highlights important matters', should also refer to the need to balance information that is highlighted in the financial statements.

~~4722~~ EFRAG also notes that this proposed communication principle sets a different threshold to paragraph 113 of IAS 1 which requires an entity to ‘consider the effect on’ comparability.

~~4823~~ Lastly, in EFRAG’s view, the link between communication principles and the qualitative characteristics of useful financial information in the Conceptual Framework should be enhanced. For example, EFRAG understands that communication principle (a) relates to the relevance of information; communication principles (b), (c), (d), (e), (f) and (g) relate to the understandability of information; communication principle (b) also relates to faithful representation; and communication principle (f) also relates to the comparability of information.

*Guidance on formatting*

~~4924~~ EFRAG notes the IASB’s proposal to develop non-mandatory guidance on formatting, which would cover the types of formats available, when a particular format might be appropriate and some illustrative examples. However, EFRAG regrets that the IASB DP does not include a broader discussion about how developments in digital reporting might affect the relevance of such guidance. Without such a discussion, we consider that there is a risk that guidance on formatting, even in a non-mandatory form, may reduce the willingness of entities to take more innovative approaches to the presentation of their financial information.

~~2025~~ EFRAG has ~~similar~~ questions over the likely effectiveness of non-mandatory guidance. However, if such guidance is to be developed we again recommend that it should be included in the non-mandatory guidance accompanying a standard rather than in separate educational material or a practice statement.

## SECTION 3 - Roles of the primary financial statements and of the notes

### Question 4

The IASB's preliminary view is that a general disclosure standard should:

- (a) specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows;
- (b) 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;
- (c) describe the role of the notes as set out in paragraph 3.28 of the IASB DP, as well as provide examples of further explanation and supplementary information, as referred to in paragraphs 3.26–3.27 of the IASB DP; and
- (d) include the guidance on the content of the notes proposed in paragraphs 7.3–7.7 of the Conceptual Framework Exposure Draft, as described in paragraph 3.7 of the IASB DP.

In addition, the IASB's preliminary view is that:

- (e) it should not prescribe the meaning of 'present' as presented in the primary financial statements and the meaning of 'disclose' as disclosed in the notes; and
- (f) if it uses the terms 'present' and 'disclose' when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either 'in the primary financial statements' or 'in the notes'.

Do you agree with the IASB's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

**EFRAG welcomes the overall objective of providing additional guidance on the roles of the primary financial statements and the notes.**

**However, EFRAG regrets that the IASB DP does not include a broader discussion about the relevance of the distinction between primary financial statements and notes in the context of the increasing use of digital reporting. [Giving insufficient regard to potential technological changes may result in narrow definitions of these roles of the primary financial statements and of the notes, which may hinder future technological change.](#)**

**Further, EFRAG has the following specific concerns:**

- (a) the proposed role of the primary financial statements focuses too much on the elements (assets, liabilities, equity, income, expenses) and not enough on the overall objective of providing summarised information about financial performance and financial position; and**
- (b) the proposed the role of the notes does not set the boundaries of the notes and appears to ignore or down-play certain sections contained in the notes (including segment information and information on unrecognised assets and liabilities) which do not merely supplement or explain the information in the primary financial statements but have information value in their own right.**

*Role of the primary financial statements and of the notes*

[26](#) EFRAG regrets that the IASB DP does not consider in greater depth the implications of digital reporting and other technological developments on the roles of the primary financial statements and the notes and the distinction between them. The IASB DP appears to implicitly limit its focus to today's fixed layout-type reports.

[2427](#) [Giving insufficient regard to potential technological changes may result in narrow definitions of these roles of the primary financial statements and of the notes which may hinder future technological change. EFRAG therefore encourages the IASB to consider the future of financial reporting when determining the language used in these sections.](#)

[2228](#) Having said that, EFRAG welcomes the overall objective of providing additional guidance on the roles of the primary financial statements and of the notes. EFRAG considers that defining the roles can help define the boundaries between the notes and the primary financial statements. EFRAG considers that this is a necessary step prior to developing any form of principles of disclosures.

[2329](#) EFRAG considers that the term 'primary financial statements' is generally well understood and has not heard major concerns raised by constituents.

[2430](#) EFRAG generally agrees that the IASB should define the purpose of the primary financial statements and of the notes. However, EFRAG considers that:

- (a) the proposed role of the primary financial statements focuses too much on the elements (assets, liabilities, equity, income, and expenses) and too little on the overall objective of providing summarised information about financial performance, financial position, cash flows and changes in equity; and
- (b) the proposed role of the notes does not set the boundaries of the notes and appears to disregard or down-play certain sections confined in the notes (such as segment information or information on unrecognised assets and liabilities), which do not merely supplement or describe the information in the primary financial statements but have explanatory value in their own right.

[2531](#) EFRAG considers that the proposed description of the role of the notes does not adequately define the boundaries of the notes, in particular in the generic reference to 'all other information that is necessary to meet the objective of financial statements'.

[2632](#) EFRAG observes that paragraph 3.28 of the IASB DP defines the role of the notes as providing 'further information necessary to disaggregate, reconcile and explain the items recognised in the primary financial statements'. EFRAG notes that the statement of cash flows and the statement of changes in equity also provide forms of reconciliations and hence that reconciling items in the primary financial statements' is not solely an objective of the notes.

*Using the terms 'present' or 'disclose'*

[2733](#) In EFRAG's comment letter in response to the Conceptual Framework Exposure Draft, EFRAG stated that the IASB should consider how to distinguish between presentation and disclosure and provide principles for when disclosures should be provided. EFRAG observes that, as the IASB DP proposes a definition of the term 'primary financial statements', this would be a logical next step. EFRAG observes that the two terms are sometimes used interchangeably in IFRS although 'present' is more often used to describe including information in the primary financial statements whereas the term 'disclosure' is often used to describe including information in the notes.

[2834](#) However, EFRAG considers that trying to clarify the respective meanings of the two terms may not necessarily be helpful as the two terms have a common meaning in the English language and nuances would not necessarily translate well into other



languages. Furthermore, EFRAG does not consider the distinction between 'present' and 'disclose' to be a major issue in financial reporting.

[2935](#) EFRAG therefore supports the IASB's proposal to be more disciplined in the use of the term in future standard setting by specifying the intended location (e.g. 'disclosed in the notes') as a practical solution.

## SECTION 4 - Location of information

### *Disclosing IFRS information outside the financial statements*

#### **Question 5**

Do you agree with the IASB's preliminary view that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c) of the IASB DP? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4 of the IASB DP), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)–(c) of the IASB DP?

**EFRAG acknowledges that the use of cross-references is already explicitly permitted in a few specific areas of IFRS Standards, and is applied more widely in practice in some jurisdictions. EFRAG welcomes the provision of principle-based guidance in this area but considers that the IASB should take a step back and identify the issues associated with the use of cross-references. These issues 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 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 considers 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 is, in particular, concerned 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, and therefore, we suggest that the IASB illustrate how the proposed requirement would work in practice.**

*Should a general disclosure standard allow cross-reference?*

~~30~~36 EFRAG first observes that, in some limited cases, IFRS Standards already allow entities to provide specified information outside the financial statements and cross-referencing is applied more widely in practice in some jurisdictions.

~~34~~37 EFRAG agrees that a general disclosure standard should include a general principle that an entity can disclose information necessary to comply with IFRS Standards outside the financial statements if some requirements are met.

38 However, the IASB should take a step back and identify the issues associated with the use of cross-references. These issues 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. For instance, excessive use of cross-referencing could make the financial statements fragmented and result in scattered information for users. Moreover, a

significant increase in the use of cross-referencing may have implications for the audit of the financial statements.

[3239 Similarly, developments in technology could move financial reporting away from a 'set' of financial statements in its current form and cross-referencing may be replaced by drilling down into data. EFRAG considers it is essential that the approach that the IASB adopts with respect to this matter takes account of potential developments in financial reporting so that future change is not restricted.](#)

— Each of these issues could provoke a different response to the 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 applying IFRS Standards. [Feedback received by EFRAG provides evidence that the accessibility and the level of assurance \(i.e. audit\) of cross-referenced information are seen as key issues by constituents.](#)

[3340](#)

*Proposed guidance on cross-references*

[3441](#) EFRAG agrees with the proposed requirement that cross-referenced information should be clearly identified and should be incorporated in the financial statements through a cross-reference to that information. This would ensure there is clarity regarding the information that is and is not subject to IFRS Standards.

[3542](#) However, EFRAG considers that any 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 is also concerned that the articulation of the circumstances under which cross referencing is permitted or prohibited could introduce restrictions that hinder future innovation in reporting and advises caution in ensuring that the language adopted does not restrict developments.](#)

[3643](#) Thus, rather than prescribing that cross-referenced information should be limited to an entity's annual report, EFRAG suggests that the IASB should highlight the underlying principle, which is that cross-references to information outside the financial statements should be allowed if the information is available to users of the financial statements on the same terms, at the same time and continue to be available as long as the financial statements.

[44](#) In EFRAG's view, this principle will reach an appropriate basis for cross-referencing, and avoid impairing understandability. It would allow entities to include information in the financial statements by cross-reference (not necessarily included in the 'single reporting package issued by an entity' as described), such as a separate risk report, that is available to users of the financial statements on the same terms, at the same time and for as long as the financial statements.

[45](#) [EFRAG is concerned 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 and therefore, we suggest that the IASB illustrate how the proposed requirement would work in practice.](#)

[37](#)—

*Examples of specific situations where cross-references are [or could be](#) used*

[46](#) EFRAG has heard that it is not uncommon in some jurisdictions to use cross-references for items such as information on risks or management remuneration as the local regulations require detailed statements on these topics. Disclosure requirements in these jurisdictions may be more extensive and may overlap with the requirements in IFRS Standards. The management remuneration disclosures may

be required in the management commentary section of the annual report or in a separate remuneration report.

47 EFRAG has also heard that information about investments in subsidiaries, associates and joint ventures and shared based payment transactions are other examples of disclosures, where cross-reference could be used.

***Providing information identified as non-IFRS within the financial statements***

**Question 6**

Do you agree with the IASB's preliminary view that a general disclosure standard should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards, but should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c) of the IASB DP? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

**Question 7**

Do you think the IASB should prohibit the inclusion of any specific types of additional information in the financial statements (for example information that is inconsistent with IFRS Standards)? If so, which additional information, and why?

*Providing information identified as non-IFRS within the financial statements*

**EFRAG acknowledges that the inclusion of non-IFRS information in financial statements is an important issue and also a complex one. The complexity arises in part from the challenge of distinguishing non-IFRS information from information that is not specified in IFRS Standards but is provided in accordance with their principles (e.g. additional information disclosed in order to provide a fair presentation in accordance with paragraph 17 of IAS 1 or additional line items provided in accordance with paragraph 85 of IAS 1).**

**EFRAG further notes that some information that is (or could be viewed as) non-IFRS is provided in accordance with laws or regulations. This might include, for example, disclosure of employee numbers or audit fees. Disclosure of this type of information seems unproblematic and readily understandable. Similar comments apply to some common and well-understood sub-totals such as a gross profit sub-total.**

**EFRAG therefore considers that any new guidance in this area needs to be better targeted in order to avoid unnecessary clutter. The primary focus for the guidance should be on financial information that supplements IFRS information or provides an alternative depiction of some type. EFRAG supports the approach proposed in the IASB DP for this type of non-IFRS information, as we consider that such information should be distinguished from IFRS information and provided in a way that is transparent, understandable and does not detract from the understandability of the IFRS information.**

**EFRAG also acknowledges the reasons why the IASB DP does not propose a general prohibition on non-IFRS information and agrees with them, as such a prohibition may limit the ability of an entity to provide information that is relevant to users. EFRAG nonetheless considers that some information might be so inconsistent or in conflict with IFRS information that it is misleading or detrimental to the understandability of the financial statements (and that the proposals in the IASB DP would not then be a sufficient remedy). EFRAG considers that this type of information should be prohibited.**

*Providing information identified as non-IFRS within the financial statements*

[3848](#) EFRAG acknowledges that the inclusion of non-IFRS information in financial statements is an important issue and also a complex one. The complexity arises in part from the challenge of distinguishing non-IFRS information from information that is not specified in IFRS Standards but is provided in accordance with its principles (e.g. additional information disclosed in order to provide a fair presentation in accordance with paragraph 17 of IAS 1 or additional line items provided in accordance with paragraph 85 of IAS 1).

[3949](#) EFRAG further notes that some information that is (or could be viewed as) non-IFRS is provided in accordance with laws or regulations. This might include, for example, disclosure of employee numbers or audit fees. Disclosure of this type of information seems unproblematic, readily understandable and not in conflict with IFRS information. Similar comments apply to some common and well-understood sub-totals such as a gross profit sub-total.

[4050](#) EFRAG therefore considers that any new guidance in this area needs to be better targeted to avoid unnecessary clutter. The primary focus for the guidance should be on financial information that supplements IFRS information or provides an alternative depiction of some type. For this type of non-IFRS information, EFRAG supports the approach proposed in the IASB DP, as we consider that such information should be distinguished from IFRS information and provided in a way that is transparent, understandable and does not detract from the understandability

of the IFRS information. In its outreaches with users, EFRAG has heard that an excessive use of non-IFRS information in the financial statement could create complexity and undermine the understandability of the financial statements. EFRAG considers that the emphasis should be on encouraging entities to determine additional information to be disclosed which is relevant for understanding the performance, position and development of the business, in a manner which is clear and does not undermine the credibility of the reported IFRS numbers.

4451 EFRAG also acknowledges the reasons why the IASB DP does not propose a general prohibition on non-IFRS information and agrees with them, as such a prohibition may limit the ability of an entity to provide information that is relevant to users. EFRAG nonetheless considers that some information might be so inconsistent or in conflict with IFRS information that it is misleading or detrimental to the understandability of the financial statements (and that the proposals in the IASB DP would not then be a sufficient remedy). EFRAG considers that this type of information should be prohibited.

4252 Lastly, in EFRAG's view, the IASB should also better explain the relationship between non-IFRS information (analysed in this section) and the discussion on 'performance measures' (discussed in the following section) in case information identified as 'non-IFRS' information also meets the description of a performance measure. The IASB could, for instance, restructure the sections of the IASB DP, so that non-IFRS information and performance measures are addressed together as separate discussion of the topics may create confusion.

## SECTION 5 - Use of performance measures in the financial statements

### Question 8

Do you agree with the IASB's preliminary view that it should clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:

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

Why or why not? If you do not agree, what alternative action do you suggest, and why?

Do you agree with the IASB's preliminary view that it should develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28 of the IASB DP? Why or why not? If you do not agree, what alternative action do you suggest, and why?

Should the IASB prohibit the use of other terms to describe unusual and infrequently occurring items, for example those discussed in paragraph 5.27 of the IASB DP?

Are there any other issues or requirements that the IASB should consider in addition to those stated in paragraph 5.28 of the IASB DP when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

The feedback on Question 8 will be considered as part of the IASB's Primary Financial Statements project.

### Question 9

Do you agree with the IASB's preliminary view that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34 of the IASB DP? Why or why not? If you do not agree, what alternative action do you suggest, and why?

**EFRAG considers that these issues are unrelated to the main objective of the IASB DP and would have preferred a more holistic and comprehensive discussion on the use of metrics such as EBIT/EBITDA as part of the Primary Financial Statements research project. Having the same topic subjected to two consultations runs the risk of contradictory feedback. In our opinion, any output from this consultation should only be considered as supplementary evidence, but should not drive the Primary Financial Statements project.**

**EFRAG would also have preferred a more holistic approach on unusual or infrequently occurring items in the context of the Primary Financial Statements project, which would look at all aspects of the issue, potentially including other adjustments made to performance figures. Nevertheless, EFRAG considers that providing guidance on the classification of items as unusual or infrequently occurring may be appropriate considering their widespread use. EFRAG is not in a position, at this stage, to further comment on the usefulness of such guidance as the IASB has neither developed principles nor included a comprehensive discussion on the matter.**

**However, EFRAG considers that the discussion should not be restricted to unusual or infrequently occurring items but should consider more broadly why adjustments are made to the performance reporting required by IAS 1. Such adjustments are not only linked to the frequency or amounts of transactions but include wider issues such as underlying performance or organic growth.**

**Finally, EFRAG agrees that a general disclosure standard should provide guidance as to how performance measures can be fairly presented in financial statements and broadly agrees with the qualitative proposals in the IASB DP. However, EFRAG is concerned that the definition of performance measures is overly broad and could lead to boilerplate disclosures.**

*Presentation of EBIT and EBITDA*

[4353](#) EFRAG understands that the IASB is using the IASB DP as an opportunity to obtain early feedback on some aspects of its Primary Financial Statements research project. As mentioned in our response to questions in section 1 of the IASB DP, however, EFRAG considers that these issues are unrelated to the main objective of the IASB DP and would have preferred a more holistic and comprehensive discussion on the use of metrics such as EBIT/EBITDA as part of the Primary Financial Statements research project. Having the same topic subjected to two consultations runs the risk of contradictory feedback. In our opinion, any output from such consultations should only be considered as supplementary evidence, but should not drive the Primary Financial Statements project.

[4454](#) In EFRAG's view, the principle in paragraphs 55A and 85A of IAS 1 that 'the subtotals shall be comprised of line items made up of amounts recognised and measured in accordance with IFRS Standards' can be used by entities to identify which subtotals they shall present when it is relevant to an understanding of an entity's financial position and performance. EFRAG does not see any merit in the IASB clarifying how the presentation of EBIT and EBITDA in the statement(s) of financial performance interacts with the entity's decision to disclose expenses by nature or by function in accordance with existing IFRS Standards. Instead, the issue should be considered more holistically in developing future requirements on Standards on primary financial statements.

*Depiction of unusual or infrequently occurring items in the statement(s) of financial performance*

[4555](#) EFRAG would also have preferred a more holistic approach on unusual or infrequently occurring items in the statement(s) of financial performance in the context of the Primary Financial Statements project, which would look at all aspects



of the issue, potentially including other adjustments made to performance figures. EFRAG considers that such comprehensive 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.

[56](#) Nevertheless, EFRAG considers that providing guidance on classification of items as unusual or infrequently occurring may be helpful in view of their widespread use.

[4657](#) ~~However~~ EFRAG is not a position at this stage to further comment on the usefulness and effectiveness of such guidance as the IASB has not proposed any new principles or provided a comprehensive discussion on the matter. However, EFRAG advises caution on the prohibition of specific terms as the translation of these terms into languages other than English can lead to unforeseen consequences. Instead, we encourage the IASB to focus on the placement of such information, rather than the label ascribed.

*General requirements for all performance measures in the financial statements*

[4758](#) EFRAG acknowledges that IFRS Standards define few performance measures and that performance measures, other than those defined in IFRS Standards, are widely used. Concerns have been raised by users about the consistency and comparability of such information and the adequacy of disclosures.

[4859](#) In EFRAG's view, when performance measures, other than measures defined in IFRS Standards, are presented in the primary financial statements or in the notes they should be clearly defined, their purpose explained, presented consistently over time and reconciled to information required by IFRS Standards. EFRAG considers that it is important that users of financial information can understand all the measures used, an economically based reason for their use and their calculation or determination. As mentioned earlier, it is important that entities consider the usefulness of the information for users.

[4960](#) EFRAG notes that the IASB guidelines are similar in the areas of focus (transparency, comparability, consistency and no undue prominence) to existing guidelines from major securities regulatory organisations, such as the European Securities Markets Authority (ESMA). However, the ESMA guidance also required entities to explain the changes made in the calculation of the performance measure over time and the reasons why these changes result in reliable and more relevant information on the financial performance. EFRAG suggests that the IASB also incorporate this requirement.

[5061](#) EFRAG is concerned that the definition of performance measures is overly broad and may lead to unnecessary disclosures if not refined. For example, the proposed definition would cover totals and sub-totals presented in statement(s) of financial performance are commonplace and readily understandable such as a gross profit subtotal.

## SECTION 6 - Disclosure of accounting policies

### Question 10

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

Do you agree with the IASB's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why? If you support the issuance of non-mandatory guidance, please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c) of the IASB DP) and give your reasoning.

**EFRAG considers that guidance about disclosures of accounting policies and significant judgements and assumptions is useful but should not be overly prescriptive as to their form and location. Entities should have some flexibility to determine the form and level of disclosure that best meets users' needs.**

**EFRAG is of the view that the categorisation of accounting policies, as proposed in the IASB DP, needs 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 (Category 2), where judgement is most needed.**

**Lastly, EFRAG considers that, as a matter of principle, the IASB should not provide guidance on information that is not required by IFRS Standards (Category 3), because it is not necessary for an understanding of the financial statements.**

#### *Determining which accounting policies should be disclosed*

[5162](#) In its response to the IASB's Exposure Draft ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)*, EFRAG assessed that disclosure of accounting policies as a mere summary of an IFRS Standard is generally not useful. EFRAG observed that useful disclosure provides insights into how the entity has exercised judgement in selecting and applying accounting policies.

[5263](#) EFRAG acknowledges that some are of the view that it should be possible to read financial statements as a self-contained document, i.e. including all applied accounting policies, regardless of whether they involve significant judgement or result from an accounting policy choice. However, in EFRAG's opinion, merely reproducing parts of IFRS Standards has generally little or no information value.

[5364](#) EFRAG is of the view that the boundaries of categories of accounting policy disclosures, as in the IASB DP, could be clarified 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 necessarily being entity-specific (Category 2), as this is the area where judgement is most needed. [EFRAG is in particular of the view that further consideration should be given as to whether accounting policies that are in Category 2 need to be disclosed in full, or whether a reference to the relevant IFRS Standard would be sufficient.](#)

*Location of accounting policy disclosures and form of the guidance*

54— EFRAG considers that the IASB should not be over-prescriptive about the location of accounting policies and disclosure of significant judgements and assumptions, so as to ensure that a preparer has some [flexibility to](#) determine the form and level of disclosure that best meets users' needs.

5565 [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 encourages the IASB to create guidance that explains the relative merits of each presentation and the circumstances in which each may be more useful.](#)

5666 In EFRAG's view, the IASB should not discuss the disclosure of information that is not required by IAS 1 (that is information classified as Category 3, which is information that is not necessary for an understanding of the financial statements). We also observe that the alternative to allow, for such information, cross-reference to information that is presented on the entity's public website, seems inconsistent with the proposal in section 4 of the IASB DP to restrict cross-references to information disclosed in the entity's annual report.

## SECTION 7 - Centralised disclosure objectives

### Question 11

Do you agree with the IASB's preliminary view that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes? Why or why not? If you do not agree, what alternative do you suggest, and why?

### Question 12

Which of Method A (focussing on assets, liabilities, equity, income and expenses) or Method B (focussing on information about and entity's activities) do you support as the basis for developing centralised disclosure requirements and why?

### Question 13

Do you think that the IASB should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?

**EFRAG supports the further exploration of how to achieve a more holistic and unified approach in developing disclosure objectives. However, EFRAG considers that a necessary preliminary step would be to clarify the boundaries of the notes. EFRAG also considers that disclosure objectives will not be helpful if they are expressed too generically.**

**While acknowledging that Method A is consistent with the IASB's approach to developing recognition and measurement requirements in IFRS Standards and would require the least amount of additional work to implement, EFRAG supports further analysis of how disclosure requirements could be focused on the entity's activities and business model (Method B in the IASB DP) as this has 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 considers that the location of the disclosure requirements is 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. EFRAG sees pros and cons in grouping all disclosure requirements in a single standard. A single standard might promote the holistic approach referred to above but could become unwieldy and require frequent updates. However, EFRAG acknowledges that, in some cases, it may be useful to cover disclosures on related topics in a single standard.**

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

[5767](#) EFRAG supports the further exploration of how to achieve a more holistic and unified approach in developing disclosure objectives.

[5868](#) As mentioned in our response to section 1, EFRAG considers that one of the reasons for unsatisfactory disclosure requirements is that these requirements have largely been developed on a standard-by-standard basis without an overall underlying basis; resulting in the lack of a unified and consistent approach.

[5969](#) EFRAG agrees that formalising an overall approach will make the process more transparent and will provide a common basis for developing disclosure objectives and requirements, leading to greater consistency between IFRS Standards.

~~6070~~ EFRAG observes that more recent IFRS Standards (from IFRS 2 *Share-based Payments* onward) have included an overall objective for their disclosure requirements. However, these objectives have been developed in isolation, as part of the discussions on each standard, and the relationships between the disclosure requirements in different standards (including the links between IAS 1 and other IFRS Standards) have not always been considered.

~~6471~~ Developing disclosure objectives more holistically could be done, as proposed by the IASB, by using as a basis a single central set of disclosure objectives (to be contained in a general standard on disclosures), supplemented by more specific objectives developed at the level of each standard.

~~6272~~ However, as explained in EFRAG's ~~preliminary~~ response to an earlier question, in order to develop centralised disclosure objectives for the notes, the IASB should first take a step back and articulate more clearly the boundaries of the notes. Moreover, if disclosure objectives are expressed too generically they are not helpful in determining the specific information to disclose in order to meet each objective.

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

~~6373~~ EFRAG observes that Method A will be easier to implement as the IASB is familiar with developing disclosure objectives and requirements in individual IFRS Standards on the basis of the types of information useful to users of the financial statements about the items within the scope of the IFRS Standard. Method A is, in particular consistent with the IASB's approach to developing recognition and measurement requirements in IFRS Standards and would require the least amount of additional work to implement.

~~6474~~ The approach will also be better aligned with the proposed description of the role of the notes, which is to 'explain and expand' the information contained in the primary financial statements.

~~75~~ On the other hand, EFRAG supports further analysis of how disclosure requirements could be focused on the entity's activities and business model (Method B) as this has 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.

~~65~~ Method B may require either a radical rewrite of many existing standards, or runs a danger of creating a disconnect between the recognition and measurement of items in financial statements and the accompanying disclosure

~~68~~ However, EFRAG observes that Method A and Method B are in the early stages of development and has not been discussed in detail, as the IASB will first consider the feedback received on the IASB DP about how centralised disclosure objectives might best be developed before developing them further. EFRAG will be pleased to provide comments as the ese approaches es are ~~is~~ developed.

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

~~69~~ EFRAG considers that the question of the location of the disclosure requirements is not the primary issue. Instead, the IASB should ensure when developing new disclosure requirements, that it always holistically reconsiders all existing disclosure requirements across IFRS Standards in order to ensure that proposed additional disclosures are not inconsistent, excessive or redundant. EFRAG sees pros and cons in grouping all disclosure requirements in a single standard.

~~70~~ A single standard might promote the holistic approach referred to above (by enabling disclosure requirements to be arranged by topic rather than by standard, avoid duplications and highlight relationships between disclosure requirements) but could become unwieldy and require frequent updates.

- 71 However, EFRAG acknowledges that in some cases, it may be useful to address disclosures on related topics in a single standard. An example of this is provided by IFRS 12 *Disclosure of Interests in Other Entities*, which contains comprehensive disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

## SECTION 8 – NZASB staff’s approach to drafting disclosure requirements in IFRS Standards

### Question 14

Do you have any comments on the NZASB staff’s approach to developing the disclosure objectives and requirements in IFRS Standards? Do you think that the development of such an approach would encourage the provision of enhanced disclosures by entities?

Do you think the IASB should consider the NZASB staff’s approach (or aspects of the approach) in its *Standards-level Review of Disclosures* Project? Why or why not?

**Although EFRAG supports further analysis of Method B, EFRAG sees merit in the NZASB staff’s proposed approach on drafting disclosure requirements using Method A. EFRAG considers in particular that the proposed two-tiered approach can strike a balance between comparability and entity-specific relevance. However, EFRAG is of the view that:**

- (a) **the boundary between ‘summary’ and ‘additional’ information needs to be clarified to make the approach operational; and**
- (b) **the disclosure objectives should be formulated in a less generic way than in the illustrative application to the disclosure requirements in IAS 16 and IFRS 3**

**EFRAG does not provide further feedback on these illustrative examples.**

- 72 Although EFRAG supports further analysis of Method B, EFRAG sees merit in the NZASB staff’s proposals on drafting disclosure requirements using Method A.
- 73 In the EFRAG/ANC/FRC DP, some general principles were provided that standard setters should always apply when drafting disclosure requirements. EFRAG observes that the NZASB staff’s approach aims to achieve many of these principles.
- 74 EFRAG considers in particular that the proposed two-tiered approach can strike a balance between comparability (with the summary information required in all instances subject only to materiality) and relevance (with the ‘additional information’).
- 75 Although EFRAG does not intend to provide detailed feedback on the illustrative redrafting of the disclosure requirements in IAS 16 *Property, Plant and Equipment* and IFRS 3 *Business Combinations*, EFRAG observes that the objectives set for the disclosures are drafted in very generic and similar terms. EFRAG considers that, to be useful, clearer objectives must be set at the standards level. Furthermore, the boundary between ‘summary’ and ‘additional’ information would need to be further clarified to make the approach operational.