EFRAG

European Financial Reporting Advisory Group

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Disclosure Initiative: Working with National Standard-Setters Issues Paper

Objective

1 The objective of this session is to provide an update to EFRAG CFSS on the topics expected to be included in the Principles of Disclosure Discussion Paper ('POD DP') and discuss the IASB's recent activities on that project.

Background

2 At the September 2016 ASAF meeting, members were asked to identify entities in their jurisdictions that have improved how they communicate in their financial statements and would be willing to be included as examples in a report by the IASB. The examples would focus on illustrating the principles of effective communication and on the process that those entities had gone through to achieve the improvements.

3 At the December 2016 ASAF meeting, the IASB staff will provide a verbal update to the ASAF members on the discussion from and the progress since the September meeting. Feedback was not yet available at the time of drafting this issue paper.

4 In addition, the Asian-Oceanian Standard-Setters Group ('AOSSG') will provide a verbal update on the discussions related to the Disclosure Initiative, which will be held during its annual meeting in late November 2016.

5 The IASB expects to publish the POD DP in the first half of 2017[1] with a comment period of 180 days.

6 The EFRAG Secretariat has prepared an overview of the expected content of the POD DP (based on tentative decisions to date) and a summary of previous discussions at EFRAG CFSS and TEG meetings in the Appendix to this paper.

Questions for EFRAG CFSS

7 Have EFRAG CFSS members identified examples of improved communication by entities in their jurisdictions that they intend to share with the IASB?

8 Are there any topics in the expected content of the POD DP that EFRAG CFSS members would like to discuss before its publication?

[1] Indication at the IASB meeting in October was that the DP would be not published before April 2017.

Agenda Papers

9 In addition to this paper, agenda paper 11-02 *ASAF paper 04 Disclosure Initiative – Working with National Standard Setters CFSS 16-11-23* has been provided for the session.

Appendix: Expected content of the POD DP

Introduction

1 The objective of this appendix is to provide an overview of the topics that are expected to be included in the POD DP. In this appendix, the term ‘general disclosure standard’ is used to refer to either an amendment to IAS 1 or a new disclosure standard.

2 The Principles of Disclosure project is one of several projects within the Disclosure Initiative. Its main objective is to identify new or clarify existing principles of disclosure in IFRS with the aim of:

(a) helping preparers communicate information more effectively;

(b) improving disclosures for users of financial statements; and

(c) helping the IASB to develop and improve disclosure requirements.

3 The POD DP will seek stakeholders’ views and comments on issues that the IASB has identified as having caused the ‘disclosure problem’ and, where applicable, to provide the IASB’s preliminary views on how to address these issues.

Roles of the primary financial statements and of the notes

4 In the POD DP, the IASB is expected to:

(a) introduce the term 'primary financial statements' and consider the implications of being a primary financial statement;

(b) describe the role of the primary financial statements; and

(c) describe the role of the notes.

5 The IASB is also expected to propose to include in the future general disclosure standard or revision to IAS 1 *Presentation of Financial Statements* the guidance on the content of the notes that is included in the Exposure Draft Conceptual Framework for Financial Reporting (‘the CF ED’).

6 Finally, the IASB is expected to suggest continuing to use the words ‘present or ‘disclose’ as before, but be more ‘disciplined’ by always specifying the intended location.

Previous CFSS discussions

7 EFRAG CFSS discussed the distinction between ‘disclose’ and ‘present’ and the reference to ‘primary’ financial statements at its September 2014 and March 2015 meetings. EFRAG CFSS members expressed some concerns that the IASB was trying to fix something that was not seen as a major issue instead of tackling the issues that cause the disclosure problem. In addition, at their meeting in July 2015, some EFRAG CFSS members expressed the view that the guidance should not be overly prescriptive, in relation to the content and location of financial information, as this would not work well in their respective legal environments.

Guidance on materiality

8 In the POD DP, the IASB was expected to suggest clarifications to the definition of materiality that are not intended to result in significant changes.

9 These changes would result in the following definition of materiality: *Information is material if omitting, misstating* ***or obscuring*** *it could~~, individually or collectively,~~* ***reasonably be expected to*** *influence ~~the economic~~ decisions that* ***the primary*** *users* ***of general purpose financial statements*** *make on the basis of ~~financial statements~~* ***financial information about a specific reporting entity****.*

10 In addition the IASB was also expected to make suggestions in order to:

(a) clarify the key characteristics of materiality; and

(b) provide clarifications to the existing requirements in IAS 1 about the application of materiality and aggregation.

Previous EFRAG CFSS discussions

11 At its meeting in March 2015, EFRAG CFSS supported the inclusion of implementation guidance on materiality in the forthcoming general disclosure standard. EFRAG CFSS considered that the qualitative aspects of the materiality assessment were the biggest issues to be addressed.

Principles of effective communication

12 In the POD DP, the IASB is expected to discuss the principles of effective communication that entities should apply when preparing financial statements and indicate that the information should be:

(a) entity-specific;

(b) described as simply and directly as possible;

(c) organised in a way that highlights important matters, which includes appropriate ordering of the notes and emphasising important matters within disclosures;

(d) linked as necessary to other information in the financial statements or other parts of the annual report to highlight relationships and improve navigation through the financial statements;

(e) not unnecessarily duplicated in different parts of the financial statements or in the financial report;

(f) disclosed in a way that optimises comparability among entities and across reporting periods, without compromising the usefulness of the information disclosed; and

(g) provided in a format (e.g. lists, tables, narrative text) that is appropriate for that type of information.

13 In addition, the IASB is expected to suggest that it could develop educational material on the use of appropriate formats for information in the notes.

Use of cross-references and non-IFRS information

14 In the POD DP, the IASB is expected to discuss two topics:

(a) the incorporation by reference of information necessary to comply with IFRS that are disclosed outside the financial statements; and

(b) the presentation of information identified as non-IFRS within the financial statements.

15 The IASB is expected to propose that disclosure outside the financial statements of information necessary to comply with IFRS is permitted provided that some requirements are met.

16 The IASB is expected to propose that a general disclosure standard should not prohibit entities from providing non-IFRS information, but entities should apply some general requirements.

Use of performance measures in the financial statements

17 In the POD DP, the IASB is not expected to discuss comprehensively performance measures that are commonly presented as line items or subtotals in the primary financial statements. The IASB has a separate project on the Primary Financial Statements ('PFS project'), which will consider the structure and content of the primary financial statements, including the use of performance measures.

18 Instead, the IASB is expected to discuss general requirements for fair presentation of performance measures in financial statements. The IASB is expected to define 'performance measures' as any summary financial measure of an entity's financial performance, financial position or cash flows. Performance measures can be either IFRS information or non-IFRS information, as long as they are financial measures.

19 The IASB is also expected to discuss some specific issues on which the IASB seeks feedback to inform its PFS project (presentation of EBIT and EBITDA on the face of the statement of financial performance and the disclosure of non-recurring, unusual or infrequently occurring items).

Previous EFRAG CFSS and TEG discussions

20 At its June 2016 meeting, EFRAG CFSS and TEG discussed the latest developments on the IASB PFS research project. There was a consensus among EFRAG CFSS members that there is a need for principles of non-IFRS measures but not for detailed definitions or rules on how to calculate them. In addition, some EFRAG CFSS members suggested that it would be worthwhile for EFRAG to have a better view on what the European picture on the use of these measures was.

21 At its May 2014 meeting, EFRAG CFSS discussed the use of non-IFRS information in the financial statements. EFRAG CFSS members generally acknowledged that users are interested in such measures. There were mixed views on whether these needed to be defined, but there was a general agreement that to the extent that these were financial, they needed to be reconciled with IFRS information.

22 It was also noted that the qualitative requirements were similar to the ones introduced by ESMA and IOSCO regarding the use of non-GAAP measures outside the financial statements.

Disclosure of accounting policies

23 In the POD DP, the IASB is expected to suggest that the objective of accounting policy disclosures is to explain how an entity has applied the requirements in IFRS to its own circumstances for the accounting policies that:

(a) have been applied by the entity in preparing and presenting financial statements; and

(b) are necessary for an understanding of the financial statements.

24 In addition, the IASB is expected to clarify that:

(a) only accounting policies necessary for an understanding of the financial statements need to be disclosed and that an entity is not required to disclose any other accounting policies; and

(b) accounting policy disclosures can be presented all together in a single note disclosure, separately in the same note as the information; or a combination of both.

Previous EFRAG CFSS discussions

25 EFRAG CFSS discussed significant accounting policy disclosures at its September 2014 meeting. EFRAG CFSS members observed that practices were already starting to evolve throughout Europe (upon local initiatives from preparers or

regulators) and it was suggested that the IASB could look at these to identify good practice.

Drafting disclosure requirements

26 The POD DP is expected to discuss whether the IASB should develop disclosure objectives ‘centrally’ rather than at standard-level and to consider how the IASB could use centralised disclosure objectives as a basis for developing and organising more holistic disclosure objectives and requirements in IFRS.

27 The IASB considers that centralised disclosure objectives could be used as a basis for developing and organising more holistic disclosure objectives and requirements in IFRS.

28 The IASB is expected to consider two possible approaches based either on the type of information or on the activities of the entity to develop such centralised disclosure objectives. The IASB is also expected to consider whether it is possible to combine the two methods when developing disclosure objectives and requirements.

Previous EFRAG CFSS and TEG discussions

29 At their joint March 2016 meeting, EFRAG CFSS and EFRAG TEG discussed a possible approach based on the type of information. The EFRAG CFSS and EFRAG TEG generally supported the direction of the proposals on drafting disclosure requirements but expressed concerns as to the need to set clear objectives for disclosures and clarify the boundaries between the summary and additional information.