Joint submission by

Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

October 2017

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

Submission via IFRS Foundation website

This submission is made jointly by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants under their strategic alliance.

ACCA and CA ANZ created their strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of their members and students, sharing a commitment to uphold the highest ethical, professional and technical standards.

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Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

About ACCA

ACCA is the global body for professional accountants. We aim to offer business- relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 198,000 members and 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 101 offices and centres and 7,291 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; audit; pensions; education; corporate governance and corporate social responsibility.

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Principal Comments

CA ANZ and ACCA appreciate the opportunity to comment on the Principles of Disclosure Discussion Paper.

We have considered this consultation essentially in relation to disclosure in the financial statements. Increasingly, however, corporate reporting needs to be seen as a whole principally because there is a demand for reporting which provides a more holistic, strategic and forward-looking depiction of the business. The boundary between the financial statements and the rest of the corporate report will become less absolute for those reasons and because the possibilities of digital presentation are encouraging and enabling that.

We broadly agree with the IASB's analysis of the disclosure issue that in some cases financial statements may contain insufficient relevant information and yet excessive irrelevant or immaterial information.

Much of the solution to this disclosure problem lies in changing the behaviours and attitudes of those involved with the financial reporting process – preparers, auditors, regulators for example – to improve the quality of the reports. There are however further changes that the IASB can make to try to assist these developments. We agree with much of what is proposed and specifically the development of

- Centralised disclosure objectives in the Conceptual Framework
- The principles of effective communication in a standard
- A general disclosure standard as outlined in the paper

Changes in attitudes and behaviours, however, are unlikely to be achieved in our view without changes in all of the standards requiring disclosures. The Standards-level Review of Disclosures project is essential and needs to

- Provide disclosure objectives that are specific to the subject covered by the standard
- Make clear in consistent language which of the more detailed disclosures needed to achieve those objectives are always going to be required and which are needed if material
- Remove any excessive, repetitive or redundant disclosures

The need for a more holistic approach to corporate reporting referred to above will also mean that there may be information required by IFRS that may be better provided outside the financial statements and vice versa the financial statements may contain information beyond that required by the standards. These may be for reasons of better understanding of the corporate reporting as a whole or to reduce repetition. We support these possibilities, but they must be subject to safeguards. We agree with most of the proposals whether for the specific cases of alternative performance measures or more generally. The inclusion of non-IFRS information or the cross-referring to other corporate reports, also raise important issues about the responsibility for the information. That of the management of the reporting entity and of the auditors needs to be clear and the extent of any ‘safe harbour’ provisions. IASB may need to work in step with other standard setters and regulators to resolve the responsibility issue.

Our responses to the specific questions raised in the Discussion Paper follow in Appendix A.

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Appendix A: Response to request for specific comments

Question 1

(a) 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?

We agree with the causes listed in relation to the disclosure problem and believe that insufficient relevant information being provided is the most pressing concern. Improving financial statements as a means of communication is a desirable outcome of this project.

While the omission of material information is more serious than the inclusion of the immaterial, too much irrelevant information is nevertheless a problem. This is both the sheer quantity of matters reported and the uninformative 'boilerplate' terms in which some of it is delivered. Users of the statements need to be able to gain an overall view of the performance and position of the reporting entity without excessive effort. While digital technology may help here it will not be the whole answer.

IASB need also to consider whether part of the disclosure problem has been the level of disclosures they have set in the different standards. Furthermore as discussed in response to Q15 below the way the standards are written contributes to the problem by a lack of consistency and fosters the development of a 'checklist mentality' which to some extent leads to immaterial disclosures and so to greater cost to preparers than can be justified.

(b) 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?

We agree the development of disclosure principles would go some way to address the disclosure problem. However, changing the specific disclosures at a standards level will also be necessary to tackling the problem.

Question 2

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

Part of the disclosure problem does not lie with the standards, but in the behaviours and approaches of preparers, auditors, regulators and others involved in the financial reporting process. IASB's contribution to changing those should be in setting the principles of disclosure and of effective communication (see Q3 below) to provide the overall objectives, but also in amending the specific disclosures within the standards to reflect those principles to ensure a consistent position. So we agree the Standards-level Review of Disclosures project is also needed in this regard.

In developing this project IASB should be careful that its proposals take sufficient account of developments in digital presentation of information and reports and do not simply address the printed paper instance that may be the current dominant approach.

Question 3

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

We agree that the IASB should develop principles of effective communication.

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

We agree with the principles as drafted.

(c) 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?

The principles of effective communication should be included in IAS 1 or a general disclosure standard. We recognise that these will be general principles the compliance with which may be relatively difficult to assess, but being part of an IFRS will raise the principles with preparers. In addition, non-mandatory guidance containing illustrative examples would be well received.

(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?

We believe that non-mandatory guidance should be developed for this issue.

If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.

This should be in the form of examples or illustrations supporting IAS 1.

Question 4

The Board's preliminary views are that a general disclosure standard should:

- **specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows;**
- **describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24;**
- **describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanatory and supplementary information, as referred to in paragraphs 3.26–3.27; and**
- **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.**

In addition, the Board's preliminary views are that:

- **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**
- **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 Board's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

We broadly agree with the preliminary outline of a general disclosure standard.

However, we do not think the distinction between notes and Primary Financial Statements (PFS) should be overemphasised. Financial statements need to be presented fairly as a whole and the disclosure standard should address what should be in the PFS and then anything else needed for a fair presentation needs to be in the notes. We do not believe that a separate objective for notes is necessary, as the notes cover a wide range of content not just analysis and assumptions, but also the items not otherwise in the financial statements such as contingencies, commitments or transactions after the reporting date. We do not think that paragraphs 3.26 and 3.27 are needed as they largely duplicate what is in 3.7.

Too much emphasis on the distinction creates issues where some PFS are much less relevant (for example cash flow statements for banks) and some notes might arguably be upgraded to a PFS (for example segment information).

In drafting any general disclosure standard IASB should aim for greater coherence over the issue of cash flows than is currently the case between paragraphs 3.22 and 3.23.

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Question 5

The Board's preliminary view is 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).

(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

We agree with the IASB's preliminary view as cross referencing can reduce unnecessary duplication. We agree with the requirements as set out in paragraphs 4.9(a)–(c), including the requirements that the financial statements must remain understandable on their own, and that cross referenced information should only be included in the annual report. However, given there is a lack of clarity on what constitutes an annual report we agree that the term should be defined. The description contained in ISA 720 *The Auditor's Responsibilities Relating to Other Information* could be suitable and would provide a consistency that could be helpful to auditors.

We note that there is a tendency for regulators to require some financial information in separate reports – the European Union's non-financial reporting and the country-by-country reports on tax are examples. IFRS information should only be provided in reports that accompany the financial statements.

We agree with the advantages of providing a principle rather than specific requirements in the standards as set out in paragraph 4.16. The most common reason for providing information outside the financial statements appears to be to avoid the duplication of information that is also required by legislation or regulators. Using a principle would mean that standards would not need to be continuously changed in response to changes in legislative or regulatory requirements.

This principle would however raise issues of the nature and responsibility for information which IASB and other standard setters need to ensure they have addressed. These would include

- Responsibility of management which may be different between the financial statements and other corporate reports
- The extent of assurance over the information by auditors
- The application of 'safe harbour' provisions to certain reports

(b) Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4), 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)?

Where extensive information may be required in IFRS and often also required or voluntarily provided in corporate reports are likely to be examples where this information is provided outside the financial statements. Examples would include

- Business segment performance
- Remuneration of key management personnel
- Country-by-country tax reporting
- Regulatory capital reporting by banks and insurers

Question 6

The Board's preliminary view is 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).**

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

We agree that entities should not be prohibited from including non-IFRS information as the information provided may be useful to users in making decisions. For example pro-forma restatements when there have been group reconstructions can convey useful information to users.

We consider that some non-IFRS information is complementary (such as physical quantity information) and needs no special label.

Other information may be alternative financial measures calculated on a different basis than equivalent IFRS measures. These would need to be clearly labelled as 'non-IFRS' and, if applicable, unaudited. They should also be reconciled to the IFRS information, but we note this may not always be possible and relevant – for instance with buyout values of pension liabilities. If there is adequate labelling of the 'non-IFRS' items we think the list of such information envisaged in paragraph 4.38(b) looks like duplication, and while an explanation of why the information is useful is necessary there would be a significant potential this would be 'boilerplate'.

The issues raised under Q9 are clearly relevant here as well.

Including non-IFRS information in financial statements would raise comparable issues of responsibility noted above in answer to Q5. The instances where this might occur could include the examples again noted under Q5, but are likely to go much wider.

Question 7

Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

Including non-IFRS information raises significant potential problems. It could swamp the financial statements if very extensive. It could undermine the IFRS standardised information if given too much prominence and thereby create confusion among users about which is the relevant and representationally faithful information. The allowance to do so must be subject to safeguards to reduce these risks.

We certainly believe the IASB should prohibit the inclusion of additional information that has the potential to be misleading, but what is misleading may not be possible to be specified further and the judgement will have to be left to management and the auditors.

Question 8

The Board's preliminary views are 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:**
    - **the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and**
    - **the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.**
- **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.**

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

We agree with the proposals regarding EBITDA and EBIT. We note however that the issues covered by this question are not principles of disclosure but are more detailed matters that IASB intend to consider as part of the PFS project. Our final reaction to them will be better determined in response to a more complete paper on PFS proposals.

Standardised formats of reporting are likely to be illusory given the variety of reporting entities.

We do not agree that definitions and requirements should be developed for the presentation of unusual or infrequently occurring items, however some general guidelines on the presentation of such items may be helpful.

(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?

We believe that prohibiting other terms could be inappropriate as there are many alternative terms and such an approach could raise difficulties in translation from English. It would also seem to go against the grain of this Discussion Paper which seems to be promoting materiality and relevance to the reporting entity.

Entities should explain how their measures of performance are determined and be required not to attach misleading descriptors to them.

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

The challenge in defining 'unusual' or 'infrequently' so not to open it up to misuse should not be underestimated.

Question 9

The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34.

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

We agree that alternative performance measures can be useful and agree with the disclosure requirements as described in paragraph 5.34

- Having no more prominence than IFRS
- Reconciled to IFRS
- Explained as to why relevant
- Neutral, free from error, clearly labelled
- Contain comparatives
- Classified, measured and presented consistently

- Be clear whether they have been audited or not

Question 10

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

We agree with the IASB's preliminary view. The general disclosure standard (or IAS 1) should discourage reporting entities from including category 3 accounting policies at all.

(b) Do you agree with the Board'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?

We do not agree with the IASB's preliminary view. In our view preparers should be able to choose how and where to present accounting policies. If guidance were developed, we do not believe that location guidance on category 3 policies is needed as these are not a pressing issue and users can ignore immaterial accounting policies.

We agree with paragraphs 6.25 to 6.27 that disclosures about significant judgements and assumptions should normally be made as part of the description of the relevant accounting policy.

Question 11

Do you agree that the Board should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

We agree that the IASB should develop centralised disclosure objectives, and we believe these would be best placed in the Conceptual Framework.

Question 12

(a) Which of these methods do you support, and why?

Of the two options, our preference is for Method A. We are unconvinced of the usefulness of Method B with its implication for example that all operating assets would need the same disclosure. A movement in inventory note may not be very helpful, but one on property, plant and equipment might be. Method B would also mean rewriting all existing disclosures, and although we support the Standards-level Review of Disclosures project adding this aspect would make that task even more difficult.

(b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section.

We cannot think of any other methods that could be used.

Question 13

Do you think that the Board 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?

In our opinion the IASB should retain disclosures in the separate standards, rather than a single one. The risk with a single one would be the separation of considering the treatment and the appropriate disclosures. We are not sure that the IFRS 7 and IFRS 9 approach has been the best approach for example.

However, we consider that the Standards-level Review of Disclosures project is needed as these standards do need to be reviewed and revised for excess requirements and the language of the requirements.

Overall we think that

- the centralised disclosure objectives should be in the Conceptual Framework;
- the principles of effective communication and the material covered by Q4 to Q7 and in Q9 and Q10 should be in IAS 1 or a new general disclosure standard; and
- the disclosure objective should be in each of the standards specific to the topic, together with the detailed requirements reflecting the issues raised in Q14 and Q15.

Question 14

(a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?

Overall we believe the NZASB staff approach appears useful in principle.

(b) Do you think that the development of such an approach would encourage more effective disclosures?

We think the approach would encourage more effective disclosures.

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(c) Do you think the Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not?

We agree that the IASB should consider the approach in its Standards-level Review of Disclosures project.

Question 15

Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.

In our view, the current drafting of the IFRS standards is a significant contributing factor to the disclosure problem. The current standards are inconsistent in their language. We provide some specific instances in Appendix B.

Most standards state *"The following shall be disclosed…"* where 'shall' is used to denote mandatory requirements. However IAS 1.31 indicates that items should only be disclosed if they are material. It is unclear which requirement takes precedence.

The standards need to be rewritten to be clear which disclosures are subject to materiality and which are not. There would seem to be some which are not subject to materiality but should always be disclosed – for example the statement of unreserved compliance with IFRS from IAS 1.16 or the date of authorisation of the financial statements from IAS 10.17.

Appendix B: Examples of the inconsistency of the language of disclosure requirements in IFRS

Current standards are inconsistent in their language and this may depend when they were written.

Most of older standards say "The following shall be disclosed …" but from IAS 1.31 we gather only if material – which takes precedence?

But IAS 33.71 refers to "examples of transactions include …"

There are a few standards where disclosures are "encouraged" (for example IAS 7.50 and IAS 41.43).

More recent standards include an overall disclosure objective.

Most of these state that overall objective and then still have specific disclosures with the "shall disclose" phrase.

IFRS 2.45 goes a bit further by saying "To give effect to the principle ... shall at least disclose …"

From IFRS 12 onwards there is the overall objective paragraph and then one can detect more nuanced language, for example

- "Shall disclose information that enables users …" (IFRS 12.20)
- "Shall disclose for each JV that is material …" (IFRS 12.21)
- "To meet the objective … an entity shall consider …" (IFRS 13.92)
- "To meet the objective … an entity shall disclose at a minimum …" (IFRS 13.93)
- "If any of the disclosures are not relevant they may be omitted" (IFRS 14.28)
- In IFRS 15.111 the level of detail needed should be considered and important information should not be obscured. However IFRS 15.113 says "shall disclose all of the following …"
- In IFRS 16 disclosures do not need to duplicate (IFRS 16.52) and shall disclose additional qualitative and quantitative information necessary to meet the objective (IFRS 16.59)

There is also inconsistency in the use of bold type for disclosures – in the older standards nearly all, in later standards only the objective perhaps and in IFRICs not at all.

The standards need to be clear which disclosures are subject to materiality and which are not. IFRS 15 and 13 quoted above are presumably trying to do this. But also for example in IAS 1 the unreserved statement of compliance is presumably always to be included and likewise with the date of authorisation from IAS 10. Are related party transaction disclosures subject to the materiality decision from IAS 1?

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