International Organization of Securities Commissions
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2 October 2017

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

RE: IASB Discussion Paper – *Disclosure Initiative—Principles of Disclosure*

Our Ref: 2017/PK/C1/IASB/98

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or C1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Discussion Paper *Disclosure Initiative—Principles of Disclosure* (the Discussion Paper).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

We welcome the IASB's efforts to improve the disclosure of financial information in response to feedback received through its public Discussion Forum on Financial Reporting Disclosure in 2013 and through its *2015 Agenda Consultation*. As expressed in the comments we provided in response to the *2015 Agenda Consultation*, we believe the Principles of Disclosure project is one of the most pressing areas in need of standard setting, as we believe there is a need for an IFRS disclosure framework that provides a clear, coherent, and comprehensive but concise package of relevant disclosure principles and requirements.

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We are generally in agreement with the Board's objective of its Principles of Disclosure project, as stated in paragraph IN3, to "identify disclosure issues and develop new, or clarify existing, disclosure principles in IFRS Standards to address those issues and to (a) help entities to apply better judgement and communicate information more effectively; (b) improve the effectiveness of disclosures for the primary users of financial statements; and (c) assist the Board to improve disclosure requirements in Standards." However, we are concerned about the lack of clarity regarding the scope of this project and its interactions and potential overlap with other IASB projects, in particular the interactions with the Standards-level Review of Disclosures project, the Primary Financial Statements project, and the Conceptual Framework project.

We encourage the Board to clearly explain to stakeholders the interactions among its current projects and how they address the 'disclosure problem' as a package. For example, part of the objective of this project as noted above is to "assist the Board to improve disclosure requirements in Standards," while part of the objective of the Standards-level Review of Disclosures project is "to develop guidance for the Board to use when developing disclosure requirements in new and amended standards." Regarding this example, we believe the Board should clearly delineate, where applicable, between those concepts and principles to be applied by the Board in its standards-level review of disclosures and in developing new disclosure requirements, and those to be applied by an entity in preparing its disclosures.

Additionally, we believe the Board should more comprehensively consider the implications of developments in technology on the 'disclosure problem' and the Board's preliminary views throughout the Discussion Paper.

Section 1—Overview of the 'Disclosure Problem' and the Objective of this Project

Question 1
Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes. (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? (b) Do you agree that the development of disclosure principles in a general disclosure standard (ie either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

Response 1

Committee 1 agrees with the description of the 'disclosure problem' and its causes in the Discussion Paper, particularly that the problem is multifaceted and that the requirements in IFRS are not the only cause. For example, we agree that difficulties in applying judgement are often behavioural, and we believe that behaviour is often influenced by a variety of issues. As such, we support the development of disclosure principles as one step in addressing the problem, in combination with other efforts by the Board and stakeholders, including continued efforts by C1 members and other stakeholders to reduce duplicative or otherwise unnecessary disclosures provided under regulatory requirements.

Question 2
Sections 2–7 discuss specific disclosure issues that have been identified by the Board and provide the Board's preliminary views on how to address these issues. 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?

Response 2

Committee 1 has no comment regarding other disclosure issues that the Board has not identified in the Discussion Paper that should be addressed as part of this project. However, as noted above, we encourage the Board to continue to address the disclosure problem in an integrated manner by ensuring consistency in its decisions regarding presentation and disclosure in its other Disclosure Initiative projects and its Conceptual Framework project, as we believe these projects are critical to the success of the Board's efforts to address the disclosure problem.

Section 2—Principles of Effective Communication

Question 3

The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance.

The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22.

(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?

(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?

(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?

(d) 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 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.

Response 3:

Principles of Effective Communication. Committee 1 does not object to the Board's preliminary view that it should develop principles of effective communication that entities should apply when preparing the financial statements. We agree with the principles of effective communication listed in paragraph 2.6 of the Discussion Paper and generally believe that further work is needed to determine whether some of these principles should be prescribed in a general disclosure standard to increase the authority and visibility of such principles. We also believe the principles of effective communication could be supplemented by illustrative examples or other implementation guidance to aid in the application of the principles.

We believe that further work is needed to ensure that all of the principles are operational and enforceable prior to inclusion in a general disclosure standard or alternatively, that some of the principles may be better communicated through implementation guidance. For example, if the principles were included in a general disclosure standard as requirements, we believe that it would be difficult for an auditor or a regulator to determine whether an entity had departed from certain of the principles, including the principle in 2.6(b) that information should be "described as simply and directly as possible," and the principle in paragraph 2.6(f) that information should be "provided in a way that optimises comparability among entities and across reporting periods without compromising the usefulness of the information." Furthermore, regarding the principle in 2.6(f), there may be various reasons why a particular disclosure is relevant for one entity, but not another. A principle that suggests the need to "optimise" comparability with peers could suggest that consistent presentation with peers is a primary consideration when communicating information. As such, we believe the Board should consider revising this principle to state that an entity should "consider" comparability rather than be required to "optimise" comparability. Additionally, we believe the Board should clarify the meaning of "comparability among entities" as this could be interpreted as comparable with *any* entity and/or revise to refer to "comparable entities."
We also note that the Board observed that an entity might need to make a trade-off between some of the principles when preparing its financial statements. We recommend the Board consider providing guidance on how an entity should make judgments regarding these types of trade-offs by developing a hierarchy of the principles (e.g., some principles might be mandatory, such as the principle that an entity is required to provide information that is entity-specific, while others may not be, such as the principle to consider comparability among comparable entities).

Additionally, we believe the Board should more clearly explain how each of the principles relates to the qualitative characteristics of useful financial information in the Conceptual Framework.

Non-Mandatory Guidance on Formatting. Committee 1 does not object to the development of non-mandatory guidance on the use of formatting in the financial statements, but recommends the Board consider the effect of developments in technology on formatting and also consider whether such guidance could assist the Board in deciding whether to require or recommend a specific format for a particular disclosure requirement (e.g., similar to paragraphs 54 and 91 of IFRS 16, which require tabular disclosure unless another format is more appropriate).

Section 3—Roles of the Primary Financial Statements and the Notes

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?

Response 4:

Committee 1 generally agrees with the Board's preliminary views, subject to the following comments.

Primary Financial Statements. We believe that the term 'primary financial statements' is generally well understood and that using this term would be operational, but for purposes of clarity, we suggest the Board consider reinforcing the notion that the primary financial statements are to be considered as a *minimum* requirement, along with the notes, in a complete set of financial statements, since some local jurisdictions also require additional statements. One C1 member believes that the term 'face of the financial statements' is the best alternative of those listed in paragraph 3.15 of the Discussion Paper, primarily since this term is used by the FASB and therefore use by the IASB would increase convergence with U.S. GAAP.

Role of the Primary Financial Statements. We believe the Board should carefully consider the effects of digital reporting and other changes in corporate reporting on the objective of financial statements, as described in the *Conceptual Framework* Exposure Draft, to determine the types of information that should be included in the financial statements. The Board could then define the role of the primary financial statements and the role of the notes to ensure that they achieve the objective of financial statements. Regarding the role of the primary financial statements, we note the Board's statement in paragraph 3.23 of the Discussion Paper that the objective does not refer to providing information about cash flows because cash flows are not identified as separate elements of financial statements in the *Conceptual Framework* Exposure Draft. However, we believe that the Board should more clearly link the role of the primary financial statements with the information included in the statement of cash flows by further linking the role of the primary financial statements to the objective of financial statements and related language in the *Conceptual Framework* Exposure Draft. We note that paragraph 7.2 of the *Conceptual Framework* Exposure Draft states that "information about cash flows" is necessary to meet the objective of financial statements of providing "information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources."

Role of the Notes. We note that while the role of the notes should be different than the role of the primary financial statements, it is unclear to us why the role of the primary financial statements includes providing information that is useful in making comparisons between entities and reporting periods, but the role of the notes does not also include such a statement. As such, we believe that the Board should consider either revising its preliminary view in paragraph 3.28 of the Discussion Paper to also state that the role of the notes is to provide information that is useful for making comparisons between entities and reporting periods, or clearly explain how the roles are different.

Additionally, particularly given how broad the description of the role of the notes is, we question whether the Board's preliminary views regarding the role of the primary financial statements and the role of the notes is sufficiently detailed to assist the Board in deciding what information to permit and what information to require to be presented in the primary financial statements and/or disclosed in the notes when setting disclosure requirements.

Effect of Technology. Further, we recommend the Board consider the implications of developments in technology on the identified roles of the primary financial statements and the notes. For example, we note the statement in paragraph 3.20(e) that "information in the primary financial statements is more likely to be included in information collected and provided by data aggregators than information in the notes." While we do not disagree with this statement today, we believe that developments in technology such as XBRL, big data, and robotisation are having, and will continue to have, significant effects on how information is processed and consumed by users.

Section 4—Location of Information

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? 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)?

Response 5:

Committee 1 acknowledges that the use of cross-references is already explicitly permitted in several areas of IFRS Standards, and is applied more widely in certain jurisdictions. 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). As further discussed below, some C1 members agree with the Board's preliminary view as they believe it would address some concerns about duplication, while other C1 members disagree with the Board's preliminary view because they believe it does not adequately address the concerns noted in paragraph 4.8. C1 members believe that if the Board proceeds with its preliminary view, that the Board should ensure that any principle regarding cross referencing would not override a prohibition of cross referencing under the relevant regulatory framework, for example, a local regulation that prohibits incorporating by reference, or cross referencing to, information outside of the financial statements unless otherwise specifically permitted or required by a Standard.

Paragraph 4.23 of the Discussion Paper notes that rather than using the term 'annual report,' the Board might alternatively use the broader term 'annual reporting package' proposed in the Exposure Draft of the proposed amendments to IFRS 8 and IAS 34, which may include items such as press releases and investor presentations, among others. In addition to feedback we provided regarding the term 'annual reporting package' in our comments on the Exposure Draft of the proposed amendments to IFRS 8 and IAS 34, C1 members do not support using a broader term such as 'annual reporting package' in this context as we believe using such a term would not address the concerns noted in paragraph 4.8 of the Discussion Paper. Specifically, using the broader term would make it difficult to find or access the cross-referenced information and would increase the risk that the cross-referenced material will not remain available to users. We also note that the purpose of the proposed disclosure requirement in the Exposure Draft of the proposed amendments to IFRS 8 and IAS 34 that utilizes the term 'annual reporting package' may merit usage of a broader term than that utilized for purposes of cross-referencing.

C1 Members that Agree with the Board's View. Paragraph 4.10 of the Discussion Paper provides the Board's preliminary view that an entity's 'annual report' should have boundaries similar to those described in paragraph 12(a) of ISA 720. The C1 members that agree with the Board's preliminary view generally agree that a principle should only allow cross-referencing to be used to incorporate information located within the 'annual report.' These members believe that it would be critical to clearly define the notion of 'annual report' (or 'annual reporting package' if that term is used despite the concerns noted above). These members also recommend the Board perform further work to assess the potential effects of the continuing evolution of digital reporting and the varying financial reporting requirements across a range of jurisdictions on its preliminary view.

While these members agree that cross-referencing should be allowed only if it makes the annual report as a whole more understandable, the financial statements remain understandable, and the information is faithfully represented, these members believe it will likely be difficult to implement and enforce these requirements without additional clarification. These members note the requirement that the location of information outside the financial statements must make the annual report as a whole more understandable may be outside of the Board's mission as it refers to a characteristic of an 'annual report' rather than the financial statements.

These members also believe that the Board should provide further guidance regarding the fundamental qualitative characteristic of 'faithful representation' in the context of cross-referencing to explicitly address the concern in paragraph 4.8(f) of the Discussion Paper that cross-referencing could undermine information necessary to comply with IFRS Standards if such information is placed next to information that is inconsistent with IFRS Standards. In addition, these members share the concern noted in paragraph 4.8 of the Discussion Paper that cross-referencing could make it difficult to discern which information has been audited. Therefore, these members recommend that the proposed requirement in paragraph 4.24(b) regarding the identification of cross-referenced information should be revised to also require an entity to clearly identify the cross-referenced information as audited, if applicable. These members also believe that an entity should not be able to comply with requirements in IFRS Standards for the presentation of the primary financial statements by providing any of the primary financial statements outside the financial statements and incorporating them by reference. Additionally, these members believe that 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. For example, these members would recommend that the Board consider consulting with the International Auditing and Assurance Standards Board (IAASB) and other auditing regulators to consider potential challenges with how this requirement would be subject to audit procedures by independent auditors.

C1 Members that Disagree with the Board's View. Other C1 members disagree with the Board'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). These members believe the Board's preliminary view does not adequately address the concerns noted in paragraph 4.8. These members are generally supportive of efforts to address the identified issue of duplication of information by incorporating information in the annual report by means of a cross-reference that is made in the annual report to information included in the financial statements. These members believe this approach would more clearly respect and communicate the boundaries of the financial statements. While these members acknowledge that some IFRS Standards already permit an entity to provide specific information required by Standards outside the financial statements, these members believe the Board could continue to address cross-referencing on an individual disclosure basis to the extent the Board identifies additional specific information that it believes should be allowed to be provided outside the financial statements.

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?

Question 7

The Board did not discuss whether any specific information—for example, information that is inconsistent with IFRS Standards—should be required to be identified as described in paragraphs 4.38(a)–(c) or should be prohibited from being included in the financial statements.

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?

Responses 6 and 7:

Committee 1 shares the concerns noted in paragraph 4.31 of the Discussion Paper regarding the inclusion of Category C information (as defined in paragraph 4.33) in the financial statements, and therefore agrees with the Board's suggestion that entities should seek to minimize Category C information in the financial statements, including minimizing immaterial information included in the financial statements. However, we believe that some entities could interpret the Board's preliminary view as permission to include significantly more Category C information within the financial statements, and we believe that the relevance and faithful representation of information prepared and either presented in the primary financial statements or disclosed in the notes in accordance with IFRS Standards may be undermined if certain Category C information is presented or disclosed in the financial statements.

Definition of Categories A, B, and C. We note that the intent of the Board's preliminary view is unclear. In this regard, we note that the Board's preliminary view is that information an entity has identified as Category C may be disclosed if, among other things, the information is relevant. It is unclear how an entity would conclude that relevant information is Category C information, given that Category B includes additional information necessary to comply with IFRS Standards, and paragraphs 55, 85, and 112(c) of IAS 1 require an entity to provide additional information if it is relevant to an understanding of the financial statements. It is also unclear whether *non-financial* information identified as Category C information would be prohibited, given the requirement that the information must comply with the qualitative characteristics of *financial* information.

Additionally, we recommend the Board use consistent language in the future in drafting definitions of Categories A, B and C to avoid confusion. For example, we note that in paragraph 4.33, Category A is defined as "information specifically required by IFRS Standards" while in paragraph 5.14 regarding performance measures, the Board uses the phrase "specified in IFRS Standards" to describe Category A.

Prohibiting Category C Disclosures. We note the Board's observation in paragraph 4.37 of the Discussion Paper that prohibiting the disclosure of additional information in Category C might be difficult to operationalize because Category B can be interpreted broadly—for example, the requirement for entities to provide information relevant to an understanding of the financial statements. While we acknowledge there is significant judgement involved in determining whether certain information is necessary to comply with IFRS Standards because it is relevant to an understanding of the financial statements, we believe that an entity should generally be required to determine whether information meets that threshold to be included in the financial statements, depending on the type of information disclosed as further discussed below.

Types of Category C Disclosures. We believe the Board should separately consider different types of information that are currently combined under its definition of Category C information. These different types of information may require different standard-setting approaches. For example:

- We acknowledge the reasons the Board concluded that prohibiting entities from disclosing immaterial information is not operational;
- We believe that the Board should consider prohibiting disclosure of information that is measured on a different basis from IFRS Standards;
- In some cases, an entity may provide information about alternative measurements of assets or liabilities, based on an acceptable accounting (measurement) policy under IFRS Standards but one which the entity did not select. We believe that the Board should consider requiring an entity that discloses such alternative measurement information to clearly identify that such information has been prepared under an accounting policy under IFRS Standards not selected by the entity and to explain why the information is useful and has been included in the financial statements unless such information is required to be disclosed under IFRS;
- We believe that the Board should consider prohibiting disclosure of information regarding measurement of items that do not meet the recognition criteria in IFRS Standards, unless such information is deemed to be relevant to an understanding of the financial statements and therefore necessary to comply with IFRS Standards (with such disclosures subject to the requirements in the Board's preliminary view in paragraph 4.38 of the Discussion Paper (or paragraph 5.34 for 'performance measures'));
- However, in all cases above, we believe that a general disclosure standard should not prohibit disclosure of information that is required to be disclosed under the relevant regulatory framework, whether the entity determines that such information is useful or not;
- We believe the Board should also consider expanding its preliminary view to address situations where the relevant regulatory framework does not permit the inclusion of Category C information or certain types of Category C information in the financial statements.

Limitations on the Board's Preliminary View. We believe that if the Board decides to allow certain types of information an entity has identified as Category C to be included in the financial statements, the Board should provide a principle (similar to the principle regarding cross-referencing information outside of the financial statements) to determine when it is appropriate to include such information in the financial statements rather than in another part of the annual report. In this regard, for those types of non-IFRS information that the Board decides to allow to be included in the financial statements, we would encourage the Board to consider whether certain IFRS requirements should be reexamined rather than permitting such information to be included in the financial statements as non-IFRS information. While we acknowledge the reason noted in footnote 39 why the Discussion Paper does not discuss whether or not information identified as Category C should be audited, we believe the Board should also consider, in consultation with the IAASB and other regulators, the potential implications of increasing the amount of unaudited information in the financial statements, which could include impacts on the ability of auditors to clearly identify the scope of their responsibilities and impacts on the ability of users to clearly identify the borders of the financial statements and discern which information has been audited.

Finally, we recommend the Board consider its *Conceptual Framework* Exposure Draft when further clarifying the issues identified related to 'non-IFRS information' and when further developing its views on how to address such issues. In this regard, we believe that information included in the financial statements should be consistent with the objective of financial statements, and that an entity should aim to meet the common information needs of its primary users and should not aim to address specialised information needs (information needs that are unique to particular users).

Section 5—Use of Performance Measures in the Financial Statements

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?

(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?

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

Response 8:

Presentation of EBIT and EBITDA in the Statement of Financial Performance. Committee 1 supports the Board's efforts to address the use of performance measures in the financial statements, as we generally share the concerns noted in paragraph 5.11 regarding the inclusion of certain performance measures in the financial statements. In addition to the Board's preliminary views regarding presentation of EBIT and EBITDA and the presentation of unusual or infrequently occurring items, we believe the Board should more broadly consider why certain common adjustments are made to the performance reporting required by IAS 1, and whether the resulting performance measures are consistent with the objective of financial statements or are more appropriately provided outside of the financial statements (see response to Question 9 below). However, we would support the Board performing outreach on these issues through its Primary Financial Statements project rather than through the Disclosure Initiative.

Regarding the Board's preliminary view on presentation of EBITDA and EBIT subtotals, C1 members have experience enforcing a view that the presentation of an EBITDA subtotal in the statement of financial performance is not acceptable if an entity uses the function of expense method. While C1 members have enforced this view without the proposed clarification in the Board's preliminary view, we do not disagree with the Board making its preliminary view explicit in IFRS Standards. In addition, one C1 member believes that EBITDA should always be prohibited from being presented as a subtotal in the statement of financial performance, including when an entity uses the nature of expense method. This member believes that this performance measure is not a complete depiction and therefore is not a faithful representation of an entity's profitability.

Unusual and Infrequently Occurring Items. As noted by the Board when eliminating the category of extraordinary items, paragraph 97 of IAS 1 requires disclosure of the nature and amount of material items of income or expense. Additionally, paragraph 86 of IAS 1 discusses the frequency of occurrence of events and the related disclosure of the components of financial performance. While we believe that under these requirements an entity may provide information that would assist a user in assessing whether an item is unusual or infrequently occurring, we also generally share the concerns noted in paragraph 5.13. We agree that information about unusual or infrequently occurring items may be helpful to users in making forecasts about future cash flows. Given the widespread use of these and similar terms, a majority of C1 members support the Board's preliminary view to develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement of financial performance, while some members believe that presentation of unusual or infrequently occurring items (or items with similar descriptions) should be prohibited on the face of the statement of financial performance. We also believe that the Board should more broadly consider why adjustments are made to the performance reporting required by IAS 1, including adjustments that are unrelated to the frequency or the unusual nature of an item.

We believe that the presentation of unusual or infrequently occurring items should not override the requirement to present items in the statement of financial performance based on the nature or function of the item. For example, we do not believe an entity should be allowed to aggregate items of a dissimilar nature or function into a single line item on the face of the statement of financial performance solely because such items meet the definition of unusual or infrequently occurring.

In developing definitions of 'unusual' and 'infrequently occurring,' we believe the Board should attempt to minimize the degree of subjectivity inherent in those definitions to reduce the risk that the resulting information would be inconsistent and arbitrary, for example, by providing more detailed guidance related to the interpretation of 'foreseeable future' or other time period to be assessed under the definition of 'infrequently occurring.' We also believe that for the resulting guidance to be operational and enforceable, such definitions would need to be precise enough to avoid manipulation or bias by preparers. Additionally, some members recommend the Board more clearly state whether the assessment is performed at the entity level or at a lower level.

If the Board develops definitions for 'unusual' and 'infrequently occurring,' we believe such definitions should clearly differentiate between these items and 'extraordinary items,' which are prohibited from being presented under paragraph 87 of IAS 1. We also believe the Board should prohibit the use of other terms to describe items similar to 'unusual' and 'infrequently occurring' items. Additionally, some C1 members support the suggestion in paragraph 5.28(c) of the Discussion Paper that the Board should also address whether the size of an item, in addition to its nature and frequency, should be considered when deciding whether to classify it as unusual or infrequently occurring (or under a separate defined term).

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?

Response 9:

Committee 1 agrees with the Board's preliminary view that a general disclosure standard should describe how performance measures can be fairly presented in financial statements. However, we have concerns that the definition of the term 'performance measure' is overly broad and could lead to boilerplate disclosures. As described in paragraph 5.2 of the Discussion Paper, the proposed definition would presumably include measures defined in IFRS Standards or common line items presented on the face of the financial statements that are not specifically defined in IFRS Standards.

We note the proposed requirement in paragraph 5.34(g) of the Discussion Paper that a performance measure must be "presented in a way that makes it clear whether the performance measure forms part of the financial statements and whether it has been audited." We believe that only performance measures that form part of the financial statements should be included in the financial statements.

We note the Board's preliminary views in paragraphs 5.30 and 5.32 of the Discussion Paper that it should not prohibit specific types of performance measures from being presented in or disclosed adjacent to the primary financial statements or disclosed in the notes. Paragraph 5.30 states, "It would be difficult to restrict the use of performance measures in the notes because IFRS 8 Operating Segments requires disclosure in the notes of internal measures reported to the chief operating decision maker." However, we note that IFRS 8 has clear parameters on what segment performance measures are required to be disclosed and does not allow other performance measures not required to meet the objective of IFRS 8 to be disclosed.

Regarding the types of performance measures that could be presented in the financial statements or disclosed in the notes, we note that the preliminary view in paragraph 5.34(c)(i) of the Discussion Paper would require an explanation of how the performance measure provides relevant information about an entity's financial position, financial performance, or cash flows. Some C1 members agree with this preliminary view since they believe that an entity should be allowed to present in its financial statements or disclose in its notes those performance measures that meet this threshold. Other C1 members believe a general disclosure standard should explicitly prohibit an entity from presenting or disclosing performance measures that are not relevant to an understanding of the financial statements (i.e., Category C performance measures) other than those required by the relevant regulatory framework. While these members acknowledge there is significant judgement involved in determining whether a performance measure is necessary to comply with IFRS Standards because it is relevant to an understanding of the financial statements, these members believe that an entity should be required to determine whether a performance measure meets that threshold to be included in the financial statements.

Section 6—Disclosure of Accounting Policies

Question 10

The Board's preliminary views are that:
 	
• a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and
• the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):
    • the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and
    • the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.
 	
(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?

(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?

If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

Response 10:

Committee 1 generally agrees with the Board's preliminary views. However, we note that the Board's preliminary views would result in an entity identifying which of its accounting policies are immaterial (i.e., Category 3 as defined in paragraph 6.14 of the Discussion Paper). We believe the Board should consider either prohibiting or strongly discouraging the disclosure of such immaterial information in the financial statements. Some C1 members believe that disclosure of such accounting policies identified by the entity as immaterial should be prohibited.

We support the presumption that entities should disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate. However, we suggest the Board revise the presumption in paragraph 6.27(a) of the Discussion Paper to state that such disclosures should be adjacent to each other, "unless another location would improve the understandability of the financial statements." As currently drafted, the guidance related to the presumption is not enforceable since the presumption is overcome based solely on the entity's judgment.

We also generally believe that disclosures are easier to understand when accounting policy disclosures are included in the same note as the information to which it relates.

While we agree with the Board's preliminary view that it is unnecessary to provide further guidance about the need for entities to make accounting policy disclosures entity-specific, we recommend that when the Board develops illustrative examples for new Standards, it should consider whether an example of an entity-specific accounting policy disclosure would assist preparers in providing entity-specific descriptions of the accounting policy specific to that Standard.

Section 7 – Centralised Disclosure Objectives

Question 11

The Board's preliminary view is that it should develop a central set of disclosure objectives that consider the objective of financial statements and the role of the notes.

Centralised disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements, but the discussion paper also talks about how centralized disclosure objectives could also potentially be used by preparers.

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?

Response 11:

Committee 1 does not object to the Board developing centralized disclosure objectives.

Question 12
The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralized disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards: • focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or • focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B). (a) Which of these methods do you support, and why? (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. Methods A and B are in the early stages of development and have not been discussed in detail by the Board. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.
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?

Responses 12 and 13:

Committee 1 generally agrees with the advantages and disadvantages of Method A and Method B described in the Discussion Paper. We believe that Method B would constitute a fundamental change in relation to the Board's current approach, which could require considerable time and effort by stakeholders to implement, including potential changes in behavior and mindset. At this time, we believe it is difficult to evaluate whether stakeholders would benefit from a Method B approach, or whether there would be unintended consequences to adopting such an approach. We note that one current advantage of Method A (or a hybrid approach that is generally consistent with Method A) is that it provides a disclosure regime that is relatively consistent with the disclosure regime under U.S. GAAP, while Method B would likely result in a disclosure approach that could decrease the ability of financial statement users to compare disclosures across IFRS and U.S. GAAP, and could increase costs for preparers that prepare financial statements under both IFRS and U.S. GAAP. As such, we would encourage the Board to work together with the FASB to identify areas where centralized disclosure objectives based on a Method B or hybrid approach would better address the disclosure problem.

We are generally supportive of a hybrid approach similar to the approach currently applied by the Board in developing IFRS Standards, as noted in paragraph 7.34 of the Discussion Paper. We believe the Board should develop a framework for the Board to use when developing disclosure guidance in new and amended Standards (and in its Standards-level Review of Disclosures project) to assist the Board in determining whether a Standard should focus on providing information about specific types of asset or liability, income or expense or focus on specific activities. Given our support for a hybrid approach that is more similar to Method A than Method B, we believe that the Board should generally not include disclosure objectives and requirements in IFRS Standards within a single Standard. Additionally, we believe such a framework should assist the Board in determining whether disclosure objectives and requirements in IFRS Standards should be within each individual Standard or grouped together for a specific topic or group of topics into one disclosure Standard, or whether there are certain disclosure objectives and requirements that would more appropriately be included in a general disclosure standard.

Section 8 – New Zealand Accounting Standards Board Staff's Approach to Drafting Disclosure Requirements in IFRS Standards

Question 14
This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards. (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)? (b) Do you think that the development of such an approach would encourage more effective disclosures? (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?

Response 14:

Committee 1 supports the inclusion of disclosure objectives, comprising an overall disclosure objective for each Standard and more specific disclosure subobjectives for each type of information required to meet that overall disclosure objective.

We believe that such objectives and subobjectives should be designed such that they assist an entity in identifying relevant and material disclosures, while discouraging a checklist-type approach to compliance with disclosure requirements. In this regard, despite the objectives included in certain Standards (e.g., IFRS 7, IFRS 12, IFRS 13, etc.), we have noted that preparers and auditors often cite compliance with minimum disclosure requirements rather than the disclosure objective when questioned by us as regulators regarding potentially deficient disclosures. Further, we recommend the Board be consistent in drafting requirements related to meeting the objectives. For example, we note that some Standards require disclosure of additional information necessary to meet the disclosure objective if the disclosures required by that Standard are not sufficient to meet that objective (e.g., see paragraph 3 of IFRS 12) while other Standards do not explicitly require disclosure of such information.

While some members do not disagree with the division of disclosure requirements into two tiers as described in paragraph 8.2(b) of the Discussion Paper, C1 members believe that such an approach is unlikely to change behaviour of preparers or other stakeholders, particularly since we believe that the primary concerns related to the 'disclosure problem' that this approach is attempting to address have already been addressed through other projects such as the Materiality Practice Statement and the amendments to IAS 1 regarding materiality.

Question 15
Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4). Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives.

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.

Response 15:

Committee 1 agrees that clear disclosure objectives and subobjectives, in combination with other guidance such as the amendments to IAS 1 regarding materiality and the Materiality Practice Statement, will contribute to addressing the 'disclosure problem,' but also note, as discussed in response to Question 1, that the 'disclosure problem' is multifaceted and that the requirements in IFRS are not the only cause. While we believe that specific disclosure requirements are typically easier to enforce than disclosure requirements that require an entity to apply significant judgement, we believe that a disclosure framework should assist the Board in determining whether to include specific disclosure requirements or requirements that require more judgement when developing new and amended Standards.

* * * *

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact Jenifer Minke-Girard, Vice Chair of Committee 1 at +1 202-551-5300. In case of any written communication, please mark a copy to me.

Sincerely,

Parmod Kumar Nagpal
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions