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Our ref MV/288

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Dear Mr Hoogervorst

Comment Letter on Discussion Paper DP/2017/1 *Disclosure Initiative – Principles of Disclosure*

We appreciate the opportunity to comment on the International Accounting Standards Board's (the Board) *Disclosure Initiative – Principles of Disclosure*. We have consulted with, and this letter represents the views of, the KPMG network.

We strongly support the Board's objective to improve communication in financial reporting. We believe that high quality financial reporting (and wider corporate reporting) is fundamental to the appropriate allocation of capital and stewardship, enabling investment and growth and contributing to the benefit of all of the general public.

To deliver that benefit, financial and corporate reporting must continue to evolve; both due to changing business practice, and varying user needs and expectations. As the Board plays a central role as the international standard setter for financial reporting, we believe that the Board should be at the heart of evolving high quality corporate reporting.

Therefore, our primary concern is that the project is too narrow in scope by limiting itself to improving the communication of relevant ***IFRS*** information within a constraint of ***existing communication practices***.

The existing set of IFRS information is rarely the only relevant information about a corporate; and the changing business environment has exacerbated a need for corporates to refer to non-IFRS information in order to explain their financial performance and their future prospects (i.e. the information that the Conceptual Framework describes as "useful"). For example, Pharma companies are unlikely to be able to explain either their financial performance or their prospects solely by reference to their IFRS Research & Development expense or amounts capitalised. They instead

discuss progress of patent and regulatory approvals. Similarly, exploration companies explain proven and probable reserves, and service companies refer to customer satisfaction. Existing IFRS information is no longer a complete set of relevant information that is capable of meeting its own objectives in many industries.

To motivate preparers to better communicate more succinct and relevant information to investors, we believe that the IASB should not limit itself to ***how*** and ***where*** to disclose information; but also reassess ***what*** information and ***why*** it is relevant.

We accept that the Board may never be able to capture all relevant information within IFRS, but we believe that the project should not restrict itself to re-presenting or re-ordering the existing set of disclosures required by IFRS. Instead, it should reassess what information is relevant to the investors as users. This more holistic approach may lead to:

— changes in the recognition, measurement and disclosure requirements of IFRS to improve the relevance of information, for example to better explain disclosure objectives or to enhance disclosures that are relevant for the quality of earnings;

— further focus on non-IFRS reporting, including through the Board's own *Management Commentary* Practice Statement; and

— reconsideration of the placement of IFRS and non-IFRS information, contributing to more effective communication of relevant information, whether financial or not.

The project should also be expanded to address more progressively how that relevant information is communicated. For example, consideration of the role of, and developments in, digital reporting is noticeably absent from the Discussion Paper (DP) and could be an important contributor to any improvement in effective communication of relevant information.

We don't under-estimate the task. Such a wide-ranging project will require support from many stakeholders:

— investors to help reach consensus on ***what*** is relevant and ***why***;

— regulators as they set narrative corporate reporting requirements;

— management to embrace the added transparency;

— the audit profession to resolve challenging issues about what is audited or assured; and

— the Board to continue the evolution of IFRS and also to act as the coordinator of a concerted effort to enhance the relevance of corporate reporting more generally.

But with ever more information about corporate performance and prospects available from sources other than financial statements, the very relevance of financial reporting

itself may be at stake. At the same time, any deficiency in the quality and consistency of that relevant non-IFRS corporate information risks serious economic consequences. It is a challenge that collectively we cannot afford to ignore.

What we suggest will take time. More immediately, the Board's priority should be to focus on improving financial reporting communication objectives in order to drive behavioural change. We recognise that current IAS 1 already enables management to make improvements in the structure and format of their financial reporting and it also explicitly permits materiality judgements in respect of disclosures. Nevertheless, only a limited change has been observed in practice.

We therefore believe that a more comprehensive overhaul of financial reporting communication objectives is needed; superficial modifications are not sufficient. Such overhaul should include:

— a principles-based disclosure framework, as we believe that there should be some overarching objectives based on user needs that serve as the guiding principle for setting disclosure requirements at the standard level and that help preparers in meeting standard-level disclosure objectives; and

— concrete ***standard-level disclosure objectives*** that clearly explain user needs and how illustrated disclosures might meet them. A clearer understanding of the purpose of disclosures is more likely to achieve the desired behavioural change.

As the Standards-level Review of Disclosures project progresses, the Board should assess if existing IFRS disclosures are adequate to meet the improved disclosure objectives or need to be enhanced. This will hopefully drive higher-quality, more relevant, and more succinct disclosures.

We recognise that the Board has other ongoing projects that are focused on Better Communication in Financial Reporting. We suggest better integration of these separate projects and engaging in a dialogue with investors, preparers, regulators and other standards setters including the IIRC and the IAASB in order to promote improvements in communication in broader corporate reporting.

The Appendix to this letter contains our detailed responses to the questions on the proposals.

Please contact Mark Vaessen or David Littleford at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Appendix

This appendix contains our detailed responses to the proposals.

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?

Description of the disclosure problem and its causes

(a) We generally agree with the identified issues of too little relevant information, too much that is irrelevant and ineffective communication.

In our view, the most important aspect of the disclosure problem is that not enough relevant information is provided in IFRS financial statements as evidenced by users often turning to the front-end of annual reports (e.g. management commentary). The question that the Board should address as part of the disclosure initiative is whether current IFRS disclosure requirements are sufficiently focused on information that is relevant to the investors as users and how IFRSs might better explain to preparers why that information is useful. Preparers will then be better able to apply judgement to determine and deliver more relevant disclosures.

Outside the financial statements, for example in the management commentary, preparers appear more confident to exercise judgement to deliver information they consider to be relevant and it may be worth the Board exploring why this is to help understand the behavioural drivers and identify solutions. While a significant portion of this information is of a non-financial nature or quasi-financial, e.g. proven and probable reserves or updates on a drugs pipeline – it is arguably more relevant to assess the development, position and prospects of the company than the amounts recorded as Research & Development expenses or capitalised under IFRS. Likewise, adjusted financial information / metrics such as like for like sales are disclosed to help explain revenue drivers when presented alongside the IFRS revenue.

There is a concern that IFRS information without explanation (or without additional measures to help explain) is increasingly falling short of relevance and rather than

trying to make it relevant, preparers often see the financial statements as a compliance exercise and concentrate their efforts on the management commentary.

Hence, we believe that the most effective way to improve corporate reporting is to take a more holistic approach to the information provided both within and outside the financial statements, for example in the management commentary in the front-end of annual reports. As such, while we believe that improving financial statement disclosures is important, it is only one part of what is needed.

Ultimately, to become more relevant, corporate reporting must understand and respond to valid user needs. This may lead to changes that go beyond presentation and disclosure in financial statements. We believe that the Board must be at the centre of evolving high quality corporate reporting, driving these changes.

Whose information needs are we aiming to address?

While we acknowledge that, consistent with general purpose financial reporting as noted in paragraph 1.12 of the DP, the Board is focusing on improving the effectiveness of disclosures for the primary users of financial statements, we also recognise that different primary users are not homogeneous and may have different but equally valid information needs and expectations. For example, sell-side analysts and data aggregators often seek more detailed information in financial statements and annual reports to use / re-arrange in a way that best meets their needs. Other investors might be content with less detailed information, an overview of 'the story'. Unless the Board understands and recognises differing needs, it will find it difficult to identify and balance solutions to the three identified issues.

Similarly, we recognise that IFRS is not used solely by large companies that prepare annual reports as part of their corporate communication to external shareholders. While improved corporate reporting may have benefits for all companies, when considering information needs of users and drafting guidance on the placement of information, the Board may need to identify solutions that are suitable for the wide range of companies that apply IFRS.

Development of disclosure principles to address the disclosure problem

(b) Disclosure objectives in current IFRSs are not sufficiently granular or do not adequately describe the information users value. We strongly support a principles-based disclosure framework as we believe that there should be some overarching objectives based on user needs that serve as the guiding principle for setting disclosure requirements at the standard level and that help preparers in meeting standard-level disclosure objectives. However, we believe that the development of disclosure principles ('disclosure framework') in a general disclosure standard may not by itself be sufficient to address the disclosure problem.

We believe that defining centralised disclosure objectives in a general disclosure standard is just a starting point. These centralised disclosure objectives should inform concrete standard-level disclosure objectives and form the basis of revised, more relevant, standard-level disclosure objectives that are clear as to the specific purpose / objective of the disclosure (see response to questions 11 and 12).

We understand that as the Standards-level Review of Disclosures project progresses, the Board will assess if existing IFRS disclosure requirements are adequate in view of newly developed disclosure objectives or need to be enhanced, but we consider that this should be a priority if change is to be achieved.

Moreover, as explained in our covering letter, there is a need for a wider reconsideration of corporate communication. The Board should seize the opportunity to reconsider ***what*** information is relevant to the users of financial statements and ***why***.

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?

While we broadly agree with the disclosure issues that have been identified by the Board, we strongly encourage the Board to re-think its response to those issues.

The DP deals with a wide range of topics but focusses mainly on *where* information should be disclosed and *how* the existing content of IFRS financial statements might be re-organised. We believe that instead of the current focus in the DP on *how* and *where* to disclose information, the focus should be broader i.e. ***what*** information and ***why*** it should be disclosed.

The DP also fails to explore how changes in the method of delivery of reports (e.g. electronic reports, XBRL) and other technological developments can contribute to more effective communication of information. We believe that technology may be both the driver and enabler of change.

We also believe that it would be helpful if the Board better integrates its projects relating to Better Communication in Financial Reporting. The current piecemeal approach may not be effective as it is difficult to understand their interaction and ultimate objectives. Conceptually interdependent subjects are handled separately in various project streams having different timelines: Principles of Disclosure, Conceptual

Framework, Primary Financial Statements, Materiality, Standards-level Review of Disclosures. This structure hinders the coherence of the Board's approach and may not deliver unless more clearly aligned.

Finally, as described in our covering letter and in response to question 1(b), we believe a more holistic consideration of corporate reporting, i.e. not limited to just IFRS financial statements, would ultimately make the latter a more useful communication tool for management and more relevant to the users.

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.

Principles of effective communication

(a) We believe that effective communication principles can serve as helpful guidelines for preparers, but would not be sufficient on their own. They should be supplemented by clearly defined disclosure objectives at the central and standard level.

(b) We agree with the principles listed in paragraph 2.6 but it remains unclear how effective they might be in changing behaviour as they are primarily focused on the re-organisation of existing content.

We also note a potential tension between principle 2(b) *entity-specific information* and 2(f) *comparability*. We accept that enhancing the value of corporate reporting and inclusion of more entity-specific information may involve a trade off on comparability, either *inter* period for a single entity or *intra* period between entities. We believe that input from users on the appropriate balance and on how transparency can facilitate greater comparability of entity-specific information will assist the Board to deliver effective solutions.

As noted in response to question 1(a), different users have different information needs and while some may see value in presenting a clear, understandable, relevant "single story", others may prefer a more detailed comprehensive 'data set' (or both, but separately).

As we support improvements in the effectiveness of corporate communication as a whole, we welcome the principle in paragraph 2.6(d) on appropriate 'linkage' between different components of the annual report. However, the Board will need to work closely with regulators who are generally responsible for prescribing the requirements for different components of corporate reports.

We see the role of linkage as more substantive than just mere cross-referencing. It is important to link information in the financial statements and management commentary in the front-end of the annual report as only together do they form the basis of effective communication. For example, many exploration companies consider capital investment in exploration a key part of their business strategy that is described in the front-end; this information on capital expenditure would be relevant and a link to the appropriate note in the financial statements would be useful. Such principle should contribute to enhanced consistency in corporate communication and reduced duplication of content. However, we note an inconsistency in drafting as in paragraph 2.11 where the "linkage" concept is further discussed, the reference is made to information within the financial statements only, rather than the whole annual report.

(c) We believe that the principles of effective communication are not likely to be the sole driver of behavioural change, regardless of whether they are prescribed in a general disclosure standard or issued as non-mandatory guidance. Instead, the Board needs to give participants a compelling reason to change, the ability and motivation to deliver more relevant information.

Use of formatting

(d) We do not believe that it is necessary to develop non-mandatory guidance on the use of formatting in financial statements as in our experience formatting is not causing major issues in practice. Any templates or prescribed formats may act as a barrier to clear, concise reporting.

Instead, we recommend that the Board focusses its efforts on other topics which are likely to have a higher impact on the effectiveness of communication. In particular, we encourage the Board to consider developments in digital reporting, for example electronic tagging of information in financial statements (e.g. XBRL) as it is required or permitted in some jurisdictions. Currently paragraph 2.21 of the DP only gives a passive acknowledgment to "electronic reports" and "structured electronic data". Considering the progressive nature of corporate reporting, including financial reporting, we believe that more in-depth consideration of digital reporting should be a critical part of the project.

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?

Primary financial statements versus the notes

We do not object to specifying that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows, as this is merely codifying current common practice. The Board's preliminary views in the DP about the role of primary financial statements and the notes mainly repeat existing guidance and do not provide further clarity about those roles on a principle level. We would therefore welcome additional explanations about what the Board is ultimately aiming for and how this interacts with other projects, especially the Conceptual Framework project and Primary Financial Statements project.

We believe that it is critical to define, as part of a 'disclosure framework' the objective of disclosures – i.e. ***what*** information is considered relevant and ***why*** it should be disclosed, either on the face or in the notes (see response to question 1(b)).

We agree that the guidance on the content of the notes proposed in paragraphs 7.3 – 7.7 of the Conceptual Framework Exposure Draft, as described in paragraph 3.7 of the DP, might be used as a starting point in deriving the purpose of the notes to inform standard-level disclosure objectives. We also recommend expanding paragraph 3.7(b) to refer to the concept of sensitivity as used in IAS 1.129(b).

We are concerned with the current drafting in paragraph 3.17(a) which might imply that the role of the notes is inferior. We consider that both primary financial statements and the notes have a role to play in achieving a true and fair view of an entity's financial position, financial performance and cash flows, and believe that the explanation in 3.17(b) is sufficient. We recommend that 3.17(a) is deleted from any final guidance, but if retained, it should be amended as follows: "… the term 'primary' does not intend to imply that the notes are inferior, or that they provide less important information. Rather they provide information which supplements or complements the primary financial statements."

Use of terms 'present' versus 'disclose'

We agree that the Board should not prescribe the meaning of 'present' as presented in the primary financial statements and the meaning of 'disclose' as disclosed in the notes, as both are used interchangeably in current practice. When it comes to determining *where* information should be provided – i.e. in the primary financial statements or in the notes, we believe that the Board should not be overly prescriptive and allow sufficient flexibility for preparers. Such decisions require judgement based on materiality considerations.

In addition to considering *where* the information should be provided (primary financial statements versus notes), the Board should consider providing more guidance on when

aggregation and disaggregation in the primary financial statements lead to more relevant and useful information, either as part of this project or the Primary Financial Statements project.

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)?

Presentation of IFRS information outside financial statements

(a) We agree that an entity should be able to provide information that is necessary to comply with IFRS Standards outside its financial statements, provided that certain criteria as proposed in paragraph 4.9 are met.

We believe that the proposed principle allowing integration of IFRS and non-IFRS information within annual reports may promote a better organisation and presentation of financial statement information in a way that forms a 'single story' together with any management commentary that explains an entity's strategy, business model, risks and performance.

We support a more integrated approach to reporting as it can contribute to more effective communication and eliminate redundancies. For example, adjacent presentation of information (e.g. of Research & Development expenses and narratives explaining progresses in a drug's pipeline) will enable a better linkage between related pieces of information.

We note that there are existing precedents in IFRS (e.g. IFRS 7 risk disclosures) that allow incorporation of IFRS-required information by cross-reference and they are used in current practice.

Although concerns exist that the introduction of such an integration principle may blur the boundaries of financial statements and create confusion as audited and non-audited information will be commingled, we believe that these concerns can be largely alleviated by the development of more innovative approaches to reporting (e.g. it can be facilitated by digital reporting) to ensure that the information integral to IFRS financial statements can be easily identified, accessed and clearly tagged as 'audited'.

In our view, advocating the segregation of information between IFRS financial statements and other components of an annual report may not appropriately consider current trends in corporate reporting and user needs.

The IASB, the IAASB, auditors and regulators should work together to identify a holistic solution, remove barriers, and implement any changes that are necessary to enable more effective communication. In particular, a dialogue with regulators will be needed as they are generally responsible for prescribing the requirements for different components of corporate reports.

Since the IASB is currently examining its future role in regards to wider corporate reporting, we encourage the IASB to take a leading role in the debate given the central role that financial reporting plays in broader corporate reporting. As a first step, it may be useful to consider an update to the IASB's *Management Commentary* Practice Statement as it provides important context for the financial statements.

Development of a comprehensive authoritative framework for the front-end of annual reports could be a response to potential criticism over the subjectivity of management's views expressed in the front-end. Such a framework could contribute to ensuring that information in the front-end is high quality and enhance transparency and comparability (e.g. in how like-for-like sales are calculated).

(b) Since IFRS explicitly permits incorporating certain IFRS information by cross-reference only in specific standards (e.g. IFRS 7 risk disclosures), some regulators do not accept incorporation by cross-reference of other disclosures, for example IAS 1 capital disclosures. As such, entities are expected to disclose all the information required by IAS 1 in respect of capital management within the financial statements, despite the fact that the regulatory capital requirements are discussed in the front-end of the annual report. Such approach is not likely to contribute to more effective communication.

Therefore, we support a principles-based approach rather than specific rules. We do not believe that the Board should aim to develop a prescriptive list of specific scenarios for which an entity should or should not be able to provide information necessary to

comply with IFRS Standards outside the financial statements. Instead, we suggest focusing on better integration of IFRS and non-IFRS information in corporate reports, based on concrete criteria as specified in paragraph 4.9(a)-(c). However, we are concerned that different constituents might understand the IASB's intention differently, for example the judgement involved in the application of criterion 4.9(b). This would be of particular concern if, for example, a regulator read the criteria more restrictively than preparers and auditors.

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?

Presentation of non-IFRS information within financial statements

We generally support the inclusion of additional information in the financial statements, provided that it is relevant to the users and contributes to better communication. Consistent with the above response to question 5, we believe that better integration of IFRS and non-IFRS information may improve the relevance and effectiveness of corporate communication. However, we believe that the suggested categorisation (paragraph 4.33), in particular the boundary between Category B and Category C is rather unclear.

The DP does not define IFRS and non-IFRS information. We note that non-IFRS information can be wide ranging and can include information that is required to be included in the financial statements by law or regulation and information that is not required, for example:

— information required by local law (e.g. staff numbers),

— regulatory information (e.g. capital requirements),

— information on alternative bases (e.g. European Embedded Value),

— adjusted financial information (e.g. adjusted profit figures or net debt disclosures),

— quasi financial metrics (e.g. sales per square foot),

— operational KPIs (e.g. customer satisfaction),

— industry measures (e.g. proven and probable reserves).

We believe that the focus should move away from a theoretical categorisation to the development of concrete criteria that additional information needs to meet in order to be included in the financial statements. In our view, additional information would need to be properly explained and reconciled, where applicable. We recommend that the Board reaches out to users to understand their expectations as to whether non-IFRS information should be part of the IFRS financial statements and why, as well as their expectations of disclosures that should accompany such additional information, if provided within the financial statements.

We recognise that there may be some concerns from users regarding clarity whether such additional information is subject to audit or not. We do not believe that this by itself should be considered as a barrier. ISAs[1] contemplate inclusion, within the financial statements, of supplementary information that is not required by the applicable financial reporting framework. Such information may or may not be covered by the auditor's report, depending on whether it is judged by an auditor to be an integral part of the financial statements due to its nature or how it is presented.

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? If so, which additional information, and why?

We are aware of divergent views on whether specific types of additional information in financial statements should be prohibited, particularly information which is presented on a basis that is different from the one required by IFRS.

Consistent with our response to question 6, we don't believe that any type of additional information should be prohibited from being included in financial statements, provided that appropriate explanations and reconciliations mitigate the risk of this additional information being misleading. Only identifying the additional information following the requirements in paragraphs 4.38(a)–(c) would not be sufficient to mitigate this risk. For example, in the scenario described in paragraph 4.39(b), the entity should be required to explain clearly on which basis (i.e. using which valuation method and assumptions)

[1] Paragraphs 53-54 of ISA 700, *Forming an Opinion and Reporting on Financial Statements*

the alternative pension liability has been computed and reconcile it to the pension liability presented in accordance with IAS 19. Under these conditions the additional information may also help to explain the IFRS information that it is presented alongside, i.e. adding to its relevance.

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.

Presentation of EBIT and EBITDA

(a) We question the benefits of the narrow scope discussion regarding Alternative Performance Measures (APMs) in the DP, focusing primarily on EBIT or EBITDA. Although we understand that the Board plans to address it further as part of its separate project on the Primary Financial Statements, we believe that this subject should be addressed comprehensively and not on a piecemeal basis.

We note that there are many APMs that are not defined, so rather than focusing on the definitions / location of selected performance measures, we would welcome more principles-based guidance on the use of APMs in general, as well as additional application guidance on IFRS subtotals as defined in IAS 1.85.

We support the application of judgement based on clear principles. We do not support a proliferation of definitions or rules as we consider that these will inevitably fail to address all circumstances and therefore are likely to fail to achieve their objective. We believe it is appropriate for items of income and expenses (and associated subtotals) to be presented separately, transparently defined, explained, and reconciled.

As such, we do not support the clarifications suggested for the subtotals EBIT and EBITDA.

The proposed restriction of presenting an EBITDA subtotal in the statement(s) of performance only when the nature of expenses method is used further highlights the general potential inconsistency between a standard-level requirement to present an income statement based on an analysis of expenses by nature or function, and the requirement to present additional line items or individually material items (that may be inconsistent with the chosen classification). Companies often resolve the inconsistency by presenting the analysis of expenses by nature or function only in the notes to the financial statements, contrary to the encouragement in IAS 1.100. We would recommend that the IASB reconsider these requirements and their interaction with IAS 1.85 and IAS 1.97.

We also note that it is not uncommon in practice for entities to present an income statement with a mixed presentation of expenses (i.e. some expenses presented based on their nature and others on their function). As recognised in paragraph 5.29(b) some preparers choose to present performance measures (e.g. EBITDA, adjusted EBITDA) in a note / memorandum on the face of the primary statement adjacent to the statement(s) of financial performance.

As noted above, we are not in favour of prescriptive formats (see question 3(d) above), and we recommend that the IASB reconsiders the existing income statement formats in light of practice and evolving user needs, including consideration of the presentation of sub-totals (both within and outside the financial statements). See our response to question 9.

Depiction of unusual or infrequently occurring items

(b)-(c) We believe that developing definitions of, and prescriptive requirements for, the presentation of unusual and infrequently occurring items might not be feasible. The proposed definitions of ‘unusual’ or ‘infrequently occurring’ in paragraph 5.24 fits items with significantly varying nature and frequency: (i) infrequent business activities such as

a business combination, major restructuring or a discontinued operation (if a particular entity does not foresee another such event for their own business in the foreseeable future), and (ii) events that have occurred but statistically are not to occur again ever, or at least for many years, such as a very severe hurricane.

The proposed definition literally covers the very wide range of everything that is not "business as usual" and is too broad to deliver a consistent, comparable performance measure that is "profit before unusual and infrequently occurring items".

Instead, we suggest that the Board should focus on transparency of performance reporting, including presentation / disaggregation of performance and the role of the statement of financial performance in predicting future business performance. See our response to Question 9.

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 believe that the IASB should take the opportunity to embrace the disclosure of performance measures (both financial and operational measures, GAAP and non-GAAP, properly explained) consistent with evolving user needs.

We agree that principles-based guidance is needed to ensure fair presentation of performance measures. In our view, transparency is a key aspect to focus on, and we believe that similar criteria should be applied to ***all*** APMs, regardless of their location i.e. within the financial statements (on the face or in the notes) or outside financial statements. In this regard, we welcomed the requirements introduced by the *Disclosure initiative* – IAS 1 Amendments on the presentation of subtotals in the statement(s) of financial performance (IAS 1 paragraphs 85A and 85B) as they promote more transparent disclosure. We also note that the recent regulatory guidelines[2] on the use of APMs presented outside of financial statements are broadly similar to the criteria included in IAS 1.

Subject to our comments below, we believe that the criteria proposed in paragraph 5.34 for all performance measures in the financial statements are sensible and we would not

[2] For example, *IOSCO Statements on Non-GAAP Financial Measures* (June 2016) and ESMA *Guidelines on Alternative Performance Measures* (June 2015)

support additional rules-based restrictions on the presentation of performance measures.

We recommend that the Board clarifies that any explanations of the relevance of the performance measure should focus on relevance to the ***users***, as opposed to management. This would help explain any apparent lack of alignment. In our view, where applicable, transparent explanations about the link between performance measures and the remuneration of management should be disclosed.

We also wonder whether the distinction in 5.34(g) between being part, or not being part, of the financial statements is a debatable requirement. Additional subtotals might, in theory, be wholly 'voluntary', but preparers might equally consider them to help in explaining IFRS information and/or to be additional information that is disclosed further to the specific requirements in IFRSs and is deemed necessary for a fair presentation (pursuant to current IAS 1.17(c)). Accordingly, it's not clear to us what this disclosure will add to that required by 5.34(c). What may be relevant is the level of assurance and we agree that may warrant further consideration.

Transparency, consistency and relevance represent the three key objectives of the principles-based guidance we are advocating in order to achieve fair presentation. We believe it can be achieved by building on the requirements suggested in paragraph 5.34 of the DP and existing requirements regarding subtotals in IAS 1.85-B.

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.

Accounting policies to be disclosed

(a) We do not believe that the Board should develop detailed and prescriptive requirements on determining which accounting policies to disclose. Instead, it should emphasise overarching principles making accounting policy disclosures more relevant to users, including a need for more entity-specific descriptions instead of generic / boilerplate descriptions. There is a wide consensus among stakeholders that any guidance should focus on judgemental areas (e.g. revenue recognition, impairment) and other areas in which management is making significant judgements and/or assumptions. We agree with the Board that this consensus, which is already partly incorporated into IAS 1.119 and IAS 1.121-122, is to be reflected in any future general disclosure standard.

While we agree that both Category 1 and Category 2 accounting policies as described in paragraphs 6.12-6.13 of the DP warrant disclosure as they are necessary for user understanding of financial statements, we question why Category 3 (as described in paragraph 6.14 of the DP) should get any consideration if such disclosure is unnecessary for users to understand information in the financial statements. Promoting such disclosure is contrary to the Board's 'decluttering' agenda and may lead to obscuring material information by non-material information.

We encourage the Board to concentrate its efforts on defining principles-based guidance for accounting policy disclosures, rather than defining new categories that might conflict with the existing guidance in IAS 1. A limited number of strong principles, developed after consulting the users of financial statements to understand their needs, are much more likely to be useful than the suggested categorisation.

While we agree that accounting policy disclosures should be entity-specific and not be a mere repetition of requirements of IFRS standards, we also recognise that to a certain extent accounting policy descriptions may need to repeat IFRS requirements to provide appropriate context for more detailed and tailored explanations reflecting an entity's specific circumstances and also on the grounds that primary users of financial statements are not expected to be IFRS experts. We also note that the statement made in paragraph 6.13 of the DP seems to acknowledge that Category 2 accounting policies

(i.e. those that relate to items, transactions or events that are material to the financial statements, either because of amounts involved or because of their nature) need to be disclosed as otherwise users unfamiliar with IFRS requirements would need to consult IFRS standards. As such, we believe that the wording in 2.6(a) on 'entity specific information' may need to be amended to remove reference to 'readily available outside the financial statements' and put more emphasis on 'relevant to an entity's own circumstances and tailored as necessary to explain that relevance'.

Location of accounting policies disclosure

(b) We do not believe that the Board needs to develop and issue further guidance on the location of accounting policy disclosures, as we have not observed significant challenges in practice in this area.

We also note that the extant IAS 1.114-116 provides guidance that enables preparers to organise and order their notes including accounting policy disclosures in different ways.

We believe that the discussion in the DP does not provide new considerations in this regard.

Question 11

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

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.

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?

As noted in response to question 1(b), we believe that defining centralised disclosure objectives in a general disclosure standard is a good starting point. They would serve as a foundation of the (few, narrow) objectives of disclosures that respond to user needs. Ultimately, these centralised disclosure objectives should inform concrete ***standard-level disclosure objectives*** and together form the basis for a new / revised and hopefully reduced set of standard-level disclosure requirements.

The first step in the process of developing a new centralised set of disclosure objectives must consist of identifying what type of information users regard as relevant.

In order to drive behavioural changes, the disclosure objectives cannot be set at too high a level. Therefore, we believe that the disclosure objectives need also to be prescribed and defined at the standard level. However, they should not be defined in a way that makes the objectives interchangeable (e.g. the general phrase suggested in 3.X1 "to help users of the entity's financial statements to assess the effect of 'business combinations' on the financial position, performance and cash flows of the entity, including judgements made in accounting for those 'business combinations" where the reference to 'business combinations' could effectively be replaced by any asset, liability, income, expense or other subject). The standard-level disclosure objectives should be defined at a more granular level. In our view, there seems little point in repeating in every standard what would appear to be a standards-wide generalism. See response to question 12 for further detail on how we believe disclosure objectives should be developed.

Question 12

The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised 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.

We are not in favour of either Method A or Method B. Instead, we recommend using a hybrid method that can be described as follows:

— The disclosure objectives should be organised in the same way as standards i.e. defined at standard level and included within each standard. As noted in response to question 11, we do not object to developing centralised disclosure objectives in a disclosure standard, but do not believe that will be sufficient.

— The disclosure objectives should focus not only on the type of information about assets, liabilities, equity, income and expenses, but also on why such information needs to be disclosed – i.e. ***what*** to disclose and ***why*** to disclose.

— As IFRSs are focused on the entity's assets, liabilities, equity, income and expenses, we cannot see how Method B could be operationalised and suggest that the Board follows Method A when developing disclosure objectives. Such approach is more aligned with the existing approach for defining disclosure requirements and consistent with the way measurement and recognition requirements are set in the standards. This can be considered as Method A but we do not believe that Method A on its own is sufficient, as the reason for disclosing information may not be understood. Hence, we do not agree with the assertion made in paragraphs 7.20(a), 7.21(a) of the DP that Method A would not trigger fundamental changes to IFRS Standards. We believe that the changes would need to be considered at the standard level to ensure that:

  — The specific disclosure objectives ***respond to user needs*** for a specific type of information

  — The disclosure objectives explain ***why*** the information is needed.

We also note that the hybrid approach described above seems to be consistent with the proposed objective of the financial statements in Conceptual Framework ED 3.4: "*…to provide 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"*. Individual standards should then expand on this to include objectives, if necessary more than one, to explain why certain information sets give relevant information to users about the relevant asset, liability, equity component, income and/or expense.

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?

Please refer to our response to questions 11 and 12. We believe that the Board should focus on defining disclosure objectives in individual standards (and improving those that already exist within more recent standards), as informed by centralised disclosure objectives and based on a thorough analysis of user needs.

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?

Note that the Board is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB staff's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

NZASB's staff approach

We believe that some aspects of the NZASB staff approach may be useful e.g. emphasis on the use of judgment. However, in our view any guidance on the use of judgement should be better placed in IAS 1 rather than being repeated in every standard.

Overall, we do not believe that the NZASB drafting approach offers a better solution as compared to the current Standards. Our response is predominantly based on the analysis of NZASB staff example 3 – *Application of the NZASB staff's approach to IFRS 3 Business Combinations*

— The objective in paragraph 3.X1 is set at a very high level. There is nothing wrong with that *per se* but one could substitute "business combinations" almost with anything else and it would also make sense. As such, there is no point in repeating such objective in each standard. In addition, it has neither driven nor constrained the disclosure requirements in paragraphs 3.X3-Y0.

— As drafted, it remains unclear what the reasons for disclosing information specified in 3.X3 and expanded disclosure in 3.X5 through 3.X9 are i.e. why this information would be useful to the users of the financial statements.

— The relationship of the first tier disclosures with the second tier disclosure is not clear. We do not believe that the proposed two-tier approach to disclosing information is likely to be effective – on the contrary, it may lead to potential redundancies.

— There is no substantive difference in the proposed approach to the current approach but the list is somewhat 'camouflaged' with a two tier approach. Based on our reading, it translates into "give the following disclosures if they are necessary to users understanding of the financial position, performance and cash flows …(similar to current disclosure list approach) and anything else necessary for a fair presentation (similar to current IAS 1.17(c))". While we agree that disclosures should be specified at the standard level, they should be linked to clearly defined disclosure objectives.

We recognise that this may not be an easy task to get right. We believe that the Board should follow the process outlined in our response to Question 1(b) and develop concrete disclosure objectives at the standard level that will drive standard-level disclosure requirements. As part of its Standards-level Review project, the Board should test if the existing IFRS disclosure requirements are adequate in view of newly developed disclosure objectives or need to be replaced.

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.

We agree that current drafting of the disclosure requirements in the Standards contributes to the problem. We are not too concerned about the language used in current Standards, which some might perceive as too prescriptive but we are concerned about lengthy lists of disclosure requirements, which are too often complied with mechanically without appropriate materiality considerations, encouraging a "checklist approach" and deterring preparers from applying their judgement. Current IFRSs either do not include stated disclosure objectives or include objectives that are

insufficiently granular to explain "why" the information is relevant in a way that would encourage the application of judgement.

As noted in our response to question 1(b) we believe that developing concrete ***standard-level disclosure objectives*** that respond to user expectations and focus on ***what*** needs to be disclosed and ***why,*** should form the basis for a new / revised and hopefully reduced set of standard-level disclosure requirements.

With a new disclosure framework in place, supplemented with additional application guidance on materiality, preparers should feel more confident to change their behaviour and more readily apply judgement. Auditors and regulators will also need to embrace a new framework and encourage application of judgement by preparers. Materiality is clearly key and we believe that encouraging a shared understanding among preparers, auditors and regulators of materiality, through dialogue and with additional guidance provided in the recently released IFRS Practice Statement *Making Materiality Judgements*, will encourage confidence that valid judgements about disclosure will not be second-guessed.

We believe that principles-based disclosure requirements developed on the basis of clear disclosure objectives that respond to user expectations will allow preparers to determine the disclosures that are relevant and reflective of their specific circumstances and as such, will drive improvement in the quality of disclosures.