RSM International Limited
50 Cannon St
London
EC4N 6JJ
UK
T +44 (0)207 6011080
www.rsm.global

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
Email: commentletters@ifrs.org

26 September 2017

Re: Discussion Paper DP/2017/1 – Disclosure Initiative—Principles of Disclosure

Dear Mr Hoogervorst

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Discussion Paper DP/2017/1 *Disclosure Initiative—Principles of Disclosure* ('the DP').

Overall, we support the IASB's initiative to develop guidance to address the disclosure problem. However, we are concerned about the overlap and interactions with other IASB projects (e.g. *Conceptual Framework, Materiality* and *Primary Financial Statements*) that may result in an overload of guidance and requirements that are too granular and prescriptive, with the risk of duplication or contradiction - the former being ironic when the objective is to cut clutter.

Our comments and detailed responses to the questions set out at the end of each section of the DP are detailed hereafter.

We would be pleased to respond to any questions the Board or its staff may have about any of our comments.

Please do not hesitate to contact me or Joelle Moughanni at +44 207 601 1080.

Sincerely,

Robert Dohrer
Global Leader - Quality and Risk
RSM International

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?

We overall agree with the DP's description of the disclosure problem. In effect, the problem is multifaceted and the requirements in IFRS are not the only root cause.

Since the IASB's Disclosure Initiative commenced several years ago in response to concerns about disclosure overload, stakeholders (preparers, regulators, national standard setters, etc.) have undertaken extensive efforts and initiatives to address behavioural issues, such as improvements in the application of materiality to financial statement disclosures and more effective communication of financial statement information. Although we are in favour of the IASB reinforcing these initiatives with its own guidance, we believe that the DP's description and explanation lack sufficient focus to provide a clear sense of direction for the next phases of the project.

In our opinion, the IASB's primary focus for the next phases of this project should be to tackle disclosure overload through a comprehensive review of standards-level requirements, with the objective of developing a clear, effective, coherent and comprehensive but concise package of disclosure requirements. This review should identify and remove any disclosure requirements that are disproportionate or redundant. Although many factors contribute to the disclosure problem, we consider that one of the reasons for unsatisfactory disclosures in IFRS financial statements is that the disclosure requirements have been developed mostly on a standard-by-standard basis instead of taking an overall and holistic perspective. Therefore, we consider the standards-level review is now the most critical outstanding step in the Disclosure Initiative.

Overall, the project should achieve the ultimate objectives of the Disclosure Initiative to reduce clutter and improve disclosure effectiveness by developing principles to support why, when, how and where information should be disclosed, and keeping away from over-prescriptive guidance.

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?

In our view, the DP could have considered more fully the boundaries of the financial statements (i.e. the distinction between information to be provided in the financial statements and information to be provided in other financial reporting outside the financial statements), as well as the impact of technology on disclosures and the presentation of financial statements.

Also, because of an obvious significant overlap between the IASB's projects on the *Conceptual Framework*, *Primary Financial Statements*, *Materiality* and *Principles of Disclosure*, there is confusion on the boundaries of each project. We strongly recommend that the IASB endeavour to address these issues comprehensively and holistically within a single project.

We have the following comments in relation to the overlap evoked above:

- The definition and role of primary financial statements would be best discussed in the project on the *Conceptual Framework* or *Primary Financial Statements*, rather than in this DP.
- The role of the notes was already discussed in the *Conceptual Framework* project, thus subjecting some proposals to two consultations and running the risk of contradictory feedback.

- The IASB's *Materiality Practice Statement* project has already discussed guidance on making judgements on materiality when preparing general purpose financial statements (including specific guidance on disclosures).
- While we understand that the DP seeks initial feedback on clarifications related to EBIT, EBITDA and on unusual or infrequently occurring items to inform the *Primary Financial Statements* project, we consider that this might confuse stakeholders.

Section 2—Principles of effective communication

<u>Question 3</u>

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.

We agree that effective communication of information in financial statements is highly important, and we overall agree with the principles proposed in the DP (although there might be some tensions between certain of them and with some existing standard-level requirements, thus requiring entities to make a trade-off between some of these principles when preparing their financial statements). We also agree with the IASB that entities need to use judgement when applying these communication principles, including the trade-off between these principles.

In our view, there is a need to strike an appropriate balance between general principles and more detailed and prescriptive guidance (such as a minimum set of disclosures) to ensure consistency and comparability across entities and industries. To be effective, at least some of the principles proposed in the DP should be made mandatory, in particular those aiming at greater transparency and comparability. However, further work is needed to determine which of these principles could be developed into requirements to be included in a general disclosure standard. The other proposed communication principles would be carried forward in illustrative examples or implementation guidance accompanying, but not forming part of, a general disclosure standard.

As mentioned above in our response to Question 1, entities have already undertaken extensive efforts in this direction and numerous sources of guidance are already available to assist them (e.g. issued by regulators and/or national standard setters). Accordingly, we are not convinced that additional non-mandatory guidance will add value and benefits.

Concerning the IASB's proposal to develop non-mandatory guidance on formatting, we are not convinced by the likely effectiveness of such guidance. However, if such guidance is to be developed we suggest that it should be included in the non-mandatory guidance accompanying, but not forming part of, a general disclosure standard (in the form of illustrative examples or implementation guidance).

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?

Although we welcome the specification of 'primary financial statements' and the overall objective of providing additional guidance on the roles of the primary financial statements and the notes, we have the following concerns:

- The proposed role of the primary financial statements focuses too much on the elements (assets, liabilities, equity, income, expenses) and not enough on the overall objective of providing summarised information about financial performance and financial position.
- The implications of the increasing use of digital reporting and other technological developments are not considered in the discussion.

Concerning the use of the terms 'present' and 'disclose', we consider that trying to clarify their meaning may not necessarily be helpful as the two terms have a common meaning in the English language and nuances would not necessarily translate well into other languages. Therefore, we support the IASB's proposal to be more disciplined in the use of the terms in future standard setting by specifying the intended location of the information (e.g. 'disclosed in the notes').

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)?

We would agree that a general disclosure standard should include a general principle that an entity can disclose information necessary to comply with IFRS Standards outside the financial statements if some requirements are met, but only after further work has been conducted (possibly together with audit authorities and regulators in different jurisdictions) to identify issues associated with the use of cross-references and assess their implications, such as the extent to which the financial statements should be a standalone document, the readability of the extensive package of information provided by entities to their users, the impact of digital reporting, etc. Excessive use of cross-referencing could make the financial statements fragmented, result in scattered information for users, and have implications for the audit of the financial statements.

We consider that any resulting guidance should remain principles-based rather than refer to specific documents such as the annual report (where the content may vary across jurisdictions and over time as electronic reporting becomes more predominant). We are also concerned that the proposed requirement to allow the use of cross-referencing only 'if it makes the annual report as a whole more understandable' (paragraph 4.9(b) of the DP) will be difficult to implement.

Thus, rather than prescribing that cross-referenced information should be limited to an entity's annual report, we suggest that the IASB should highlight the underlying principle, which is that cross-references to information outside the financial statements should be allowed if the information is available to users of the financial statements on the same terms, at the same time, continue to be available as long as the financial statements, and cannot be changed after the audit report is signed.

Question 6

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

- **should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but**
- **should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c).**

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

We acknowledge that the inclusion of non-IFRS information in financial statements is an important issue and a complex one. The complexity arises in part from the challenge of distinguishing non-IFRS information from information that is not specified in IFRS Standards but is provided in accordance with its principles (e.g. additional information disclosed to provide a fair presentation in accordance with paragraph 17 of IAS 1 Presentation of Financial Statements or additional line items provided in accordance with paragraph 85 of IAS 1). In addition, some information that is (or could be viewed as) non-IFRS is provided in accordance with laws or regulations (e.g. disclosure of employee numbers, audit fees, gross profit sub-total, etc.).

We believe the use of non-IFRS information should not be restricted if the information is explained and reconciled. Guidance to discipline the use is needed so that users can understand how the information is generated and how it reconciles with IFRS measures.

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?

We agree with the reasons why the DP does not propose a general prohibition on non-IFRS information. Although we would prefer that information that is inconsistent or in conflict with IFRS information be prohibited from inclusion in the financial statements, we acknowledge that such prohibition would not be operational. In this context, we are comfortable with the conditions for inclusion of non-IFRS information proposed in paragraph 4.38 of the DP as a good safeguard.

Section 5—Use of performance measures in the financial statements

<u>Question 8</u>
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.

We would have preferred a more holistic and comprehensive discussion on the use of metrics such as EBIT/EBITDA and on unusual or infrequently occurring items in the context of the *Primary Financial Statements* project, as they are unrelated to the main objective of the DP. Having the same topics subjected to two consultations runs the risk of contradictory feedback.

Nevertheless, we consider that providing guidance on the classification of items as unusual or infrequently occurring could be appropriate considering their widespread use. However, we consider that the discussion should not be restricted to unusual or infrequently occurring items but should consider more broadly adjustments made to the performance reporting required by IAS 1 (e.g. paragraph 87 which prohibits the presentation of any items of income or expense as extraordinary items without defining 'extraordinary').
As the IASB has neither developed principles nor included a comprehensive discussion on the matter, we are not in a position, at this stage, to further comment on the usefulness of such guidance.

<u>Question 9</u>
The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34.
Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

We agree that a general disclosure standard should provide guidance as to how performance measures can be fairly presented in financial statements. Also, we overall agree with the proposals in the DP to this effect. However, we are concerned that the definition of performance measures is quite broad and could lead to boilerplate disclosures.

In our view, when performance measures - other than measures defined in IFRS Standards - are presented in the primary financial statements or in the notes, they should be clearly defined, presented consistently over time and reconciled to information required by IFRS Standards, and their purpose should be explained.

Section 6—Disclosure of accounting policies

<u>Question 10</u>
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.

We consider that guidance on disclosure of accounting policies and significant judgements and assumptions is certainly useful, but should not be overly prescriptive as to their form and location. Entities should have some flexibility to determine the form and level of disclosure that best meets users' needs.

We believe that the categorisation of accounting policies proposed in the DP needs further clarifications and that materiality should always be considered. The focus should be on disclosure of those accounting policies that relate to items, transactions or events that are material to the financial statements without always being necessary (Category 2), where judgement is most needed.
We consider that the IASB should not provide guidance on information that is not required by IFRS Standards (Category 3), because it is not necessary for an understanding of the financial statements.

Although we understand the view that it should be possible to read financial statements as a self-contained document, including all applied accounting policies regardless of whether they involve significant judgement or result from an accounting policy choice, we are of the view that merely reproducing parts of IFRS Standards has generally little or no information value. Disclosures about accounting policies are most useful when they are not a mere reproduction or summary of an IFRS Standard but provide insights into how the entity has exercised judgement in selecting and applying accounting policies.

When possible, we prefer presenting accounting policies in the same notes as the information to which they relate as this is more useful.

Section 7—Centralised disclosure objectives

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?

Overall, we agree that the Board should develop centralised disclosure objectives, as we believe that a lack of clear disclosure objectives in IFRS Standards contributes to the disclosure problem.

As mentioned earlier in our response to Question 1, we consider that one of the reasons for unsatisfactory disclosure requirements is that these requirements have largely been developed on a standard-by-standard basis without an overall underlying basis, resulting in the lack of a unified and consistent approach. We agree that formalising an overall approach will make the process more transparent and will provide a common basis for developing disclosure objectives and requirements, leading to greater consistency amongst IFRS Standards.

However, we consider that disclosure objectives are not helpful if they are too generic and we recommend further exploration of how to achieve a more holistic and unified approach in developing them. This could be done, as proposed by the IASB, by using as a basis a single central set of disclosure objectives (to be contained in a general standard on disclosures), supplemented by more specific objectives developed at the level of each standard.

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.

Despite the disadvantages set out in paragraph 7.33 of the DP, we support further analysis of how disclosure requirements could be focused on the entity's activities and business model (i.e. Method B in the DP) as this has the potential to provide improved information for users over the present practice of focusing on information about an entity's assets, liabilities, equity, income and expenses.

Question 13

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

In our view, the question of the location of the disclosure requirements (ie whether a single standard or several disclosure standards) is not the primary issue. Instead, the IASB should ensure, when developing new disclosure requirements, that it always holistically reconsiders all existing disclosure requirements to ensure that any proposed additional disclosures are not inconsistent, excessive or redundant.

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?

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).

Although we support further analysis of Method B of the DP (see our response to Question 12), we see merit in the NZASB staff's proposed approach on drafting disclosure requirements using Method A.
The proposed two-tiered approach can strike a balance between comparability and entity-specific relevance. However, we are of the view that the boundary between 'summary' and 'additional' information needs to be clarified to make the approach operational. Also, the disclosure objectives should be formulated in a less generic way than in the illustrative application to the disclosure requirements in IAS 16 and IFRS 3.

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.

In our view, the application of materiality is key in determining what and how to disclose information. Difficulties or unwillingness to exercise judgement in determining which information to disclose is contributing to the disclosure problem. As the issue is largely behavioural, the non-mandatory guidance expected to be included in the forthcoming IASB's *Materiality Practice Statement* might not be effective in addressing the issue on its own. Therefore, there seems to be a need for an appropriate balance between general principles and objectives and, in some cases, more prescriptive guidance about the information to disclose.

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