AASB Staff Issues Paper
IASB Discussion Forum

Introduction

1. The purpose of this paper is to provide the Board with an overview of the IASB's Discussion Forum on disclosure issues held in London in January 2013, as discussed in the IASB's Feedback Statement on that Discussion Forum (May 2013). The paper begins with a summary of the key issues identified at the Discussion Forum, followed by an overview of the IASB Response to those issues. In addition, this paper raises some issues that AASB staff consider important to this general topic but are not canvassed in the IASB Feedback Statement.

2. The IASB did not invite comment on its Feedback Statement. This paper asks whether the AASB considers that it should, nonetheless, provide comments on the Feedback Statement (or the topic of disclosure in general) in advance of the publication of any proposals on this topic by the IASB. In this regard, AASB staff understand that, in September 2013, IASB staff will be presenting papers to the IASB on possibly commencing work to amend IAS 1 *Presentation of Financial Statements* and assessing whether more guidance needs to be provided on materiality. Therefore, AASB staff think that, if the Board decides to write to the IASB in the near future, it would be productive to await the IASB's deliberations at its September meeting.

Summary of Key Issues

3. From a review of the Feedback Statement, AASB staff believe the key issues that arose from the user and preparer presentations and the panel and open forum discussion were:

   - disclosures often fail to be entity-specific;
   - excessive disclosure (resulting in some irrelevant disclosures), partly due to inappropriate application of the materiality concept;
   - perceptions that some IFRSs prevent the exercise of professional judgement;
   - investors need to use professional judgement when seeking information; and
   - pressure from regulators and auditors to explain why particular disclosures were omitted.

4. In addition, the Forum discussed the roles that each party – users, preparers, standard-setters, auditors and regulators – has in financial statement disclosure, as well as the impediments to concise meaningful disclosure they cause. Although there seems to be no clear agreement on defining the disclosure problem, there seems to be a consensus that all the parties contributed in some way to the disclosure problem and have a shared responsibility to rectify the issue. It was agreed that there is no single step or solution to fixing the problem. However, there was agreement that progress could be made if one body, the IASB, took a lead in addressing these issues.

AASB Staff Observations

5. It appears a challenge is finding a balance between the concerns of preparers that financial reports are continually growing in size and cost, and the concerns of users that financial reports are not giving them the information they need. However, these differing concerns are not diametrically opposed, because users are not necessarily seeking more information – rather, many of them seek better targeted disclosures.

6. Overall, the objective should be disclosure of better quality information, while finding ways of reporting useful information more concisely.

7. Achieving this objective seems to require shifting the focus from compliance to communication. This appears to be a challenge faced by preparers, auditors and regulators.

Summary of AASB Staff Recommendations

8. AASB staff recommend:

    (a) monitoring the IASB's discussion of some aspects of its Feedback Statement, which is expected to occur at its September 2013 meeting; and

    (b) writing to the IASB in advance of it developing proposals for public comment, to make the following points [except for those points (if any) that cease to be relevant because of tentative IASB decisions at that September meeting]:

        (i) the best way to clarify the universal application of the concept of materiality is to include, at the start of each Standard, a statement that the Standard's requirements apply where information resulting from their application is material (see paragraphs 15 – 17 below);

        (ii) the IASB is encouraged to take care to ensure any additional guidance it develops on materiality (as foreshadowed in the Feedback Statement) should be restricted to principles (see paragraphs 18 – 19 below);

        (iii) it is important for the IASB to acknowledge the limited contribution that providing additional guidance on materiality in IFRSs could make to overcome the 'disclosure overload' problem in IFRS-compliant financial statements, and to place the onus on regulators and others to address the incentives to prefer the risk of over-disclosure to under-disclosure (see paragraph 73 below);

        (iv) there appears to be an overdependence on the primary qualitative characteristic (QC) of relevance in determining which disclosures should be required, without supporting that QC by enunciating principles for disclosure requirements. Relevance of itself is insufficient for determining a consistent and cohesive set of disclosure requirements across the suite of IFRSs (and would not solve the disclosure overload problem we have today). The IASB's activities to rationalise disclosure requirements in IFRSs are unlikely to achieve fundamental change without identifying the generic characteristics of an entity ("stocks and flows") that should be the subject of general purpose financial reporting (see paragraphs 53 – 57 below);

(v) the IASB could contribute to overcoming the disclosure overload problem by including more conceptually-based (and thus generally simpler) recognition and measurements in IFRSs (see paragraph 74 below); and

(vi) the IASB should refrain from indicating where disclosures required by an IFRS are required or permitted to be located, and leave this matter for the standard setters and regulators in each jurisdiction. The IASB could consider developing a principle along the lines that information that composes general purpose financial statements can be presented in one or more locations, provided it is available to users on a basis that preserves the cohesiveness of the financial statements (see paragraphs 68 – 72 below).

IASB Response

9. The 'IASB response' section of the Feedback Statement provides a brief summary of each of the broad issues listed below and an outline of the steps that the IASB will be asked to consider taking in the near to medium term to address those issues:

- materiality;
- perceptions that some IFRSs prevent the exercise of professional judgement; and
- a more general review of disclosure requirements.

10. Within paragraphs 12 – 63 of this paper, for each of these issues, the specific related concerns (as set out in the Feedback Statement) are described, followed by the comments of AASB staff thereon (these staff comments are indented and shown in italics).

11. It should be borne in mind that the 'IASB response' section of the Feedback Statement does not contain any IASB decisions. That title refers to the responses the IASB has been asked to make in respect of the concerns raised – although these 'responses' signpost changes the IASB might make to IFRSs, the IASB has not tentatively committed itself to those specific responses.

Materiality

Application of materiality

12. The Feedback Statement notes feedback that:

- preparers, auditors and regulators understand the concept of materiality but are less certain about how it should be applied and as a result tend to be cautious; and
- some think the drafting of some Standards suggests that the specific requirements of those Standards override the general statement in paragraph 31 of IAS 1 that specific disclosures are not required if the information is not material.

13. The Feedback Statement notes the IASB is currently revising the *Conceptual Framework* but has no plans to revise the description of materiality or include additional discussion

about the topic. However, it further notes that the IASB plans to start a project on materiality with a view to creating either general application guidance or education material. This project will consider whether to develop any application guidance specific to one or more particular Standards, in light of how materiality is applied in practice in IFRS financial statements.

14. More detailed issues noted in the Feedback Statement in regard to materiality (extracted from the Feedback Statement) are outlined below:

Possible amendments to IAS 1

Clarifying the References to Materiality

15. Many commentators have said they do not have the confidence to apply the general requirements of paragraph 31 of IAS 1 against the specific disclosure requirements in other Standards and have suggested that references to materiality should be made clearer in individual Standards.

16. *AASB staff agree with the comment that the concept of materiality should be made clearer in individual Standards. The basis for this comment is from a review of the disclosure requirements in IFRS 13* Fair Value Measurement*. Considering this is a more recent Standard, staff were expecting to see a statement similar to that mentioned above regarding 'too much detail can obscure useful information'. However, instead, paragraph 93 of IFRS 13 states 'To meet the objectives in paragraph 91, an entity shall disclose, at a minimum…'. This paragraph follows paragraph 92, which states: '... an entity shall consider … the level of detail necessary to satisfy the disclosure requirements; … how much emphasis to place on each of the various requirements; [and] … how much aggregation or disaggregation to undertake…'.*

17. *AASB staff believe that, without supporting clarification, the wording of paragraph 93 could be misinterpreted as contradicting the message in paragraph 92 and the statement in paragraph 31 of IAS 1 that an entity need not provide a specific disclosure required by an IFRS if the information is not material. AASB staff consider this problem to be indicative of a lack of clarity regarding the application of materiality is IFRSs. To address this problem generally, AASB staff think a consistent clarification should be made once at the start of each Standard, along the lines of the statement in each Australian Accounting Standard that its requirements apply where information resulting from their application is material (minus, of course, the reference to AASB 1031* Materiality*, which the Board plans to withdraw). If, instead, references to materiality were sprinkled throughout Standards (to raise the prominence of that principle), the risk would arise that a reference would inadvertently be omitted, creating a misperception that materiality does not apply to the affected paragraphs.*

18. *AASB staff think the Board should in due course encourage the IASB to take care to ensure any additional guidance it develops on materiality (as foreshadowed in the Feedback Statement) should be restricted to principles. Otherwise, the guidance might contain bright lines, which would be inconsistent with:*

    (a) the principles-based nature of IFRSs;

(b) *the need to apply judgement, having regard to the circumstances of the entity, when applying the concept of materiality (given that materiality is explained in paragraph QC11 of the IASB Conceptual Framework as an entity-specific aspect of relevance); and*

(c) *the concerns (to which the IASB is responding) that some IFRSs prevent the exercise of professional judgement (see section below on those concerns discussed in the IASB Feedback Statement).*

19. *AASB staff raise this concern in part because the IASB Feedback Statement refers to the European Securities and Markets Authority's (ESMA's) Consultation Paper (CP)* Considerations of materiality in financial reporting *(November 2011). The AASB's submission on that CP (dated 3 April 2012):*

(a) *said the AASB considers the principle-based guidance on materiality in IFRSs and the IASB Conceptual Framework is adequate; and*

(b) *expressed concern that issuing guidance on some issues raised in the CP could, in effect, reinterpret the wording of IFRSs and the IASB Conceptual Framework.*

Reason why Immaterial Disclosures are Unnecessary

20. There is no corresponding explanation to give context or reason for the statement in paragraph 31 of IAS 1 about why immaterial disclosures need not be included in the main financial statements or notes.

21. Recent Standards have included a statement explaining that too much detail can obscure useful information: the IASB will be asked to consider adding a similar explanation to IAS 1.

22. *AASB staff agree that it would be useful to explain the reason for the statement in paragraph 31 of IAS 1 that 'an entity need not provide a specific disclosure required by an IFRS if the information is not material'. However, AASB staff do not regard this as an important addition.*

Perceived Inconsistency within IAS 1

23. The Feedback Statement notes perceptions that the requirements of paragraphs 31 and 15 of IAS 1 *Presentation of Financial Statements* are inconsistent. Paragraph 31 of IAS 1 states that specific disclosures are not required if the information is not material, whilst paragraph 15 of IAS 1 implies material information must be disclosed irrespective of whether there is an explicit disclosure requirement.

24. *AASB staff disagree with the above-mentioned perceptions that the requirements of paragraphs 31 and 15 of IAS 1 are inconsistent regarding the role of materiality. The differences between those two paragraphs relate to the whether specific disclosures in IFRSs need to be applied, or 'exceeded', in applying the principle of providing all relevant and representationally faithful information that is material. The materiality principle is reflected in both paragraphs of IAS 1.*

Primary financial statements versus notes

25. Some people think that the statement about not needing to disclose information if it is not material means that an entity does not need to disclose an item in the primary financial statements but instead must disclose it in the notes. The IASB will be asked to consider clarifying that materiality applies to the whole financial statements and, therefore, if information is not material, it need not be shown in either the primary financial statements or the notes.

26. *AASB staff can appreciate how paragraph 31 of IAS 1 can be misinterpreted given paragraph 30 of IAS 1 states: '…An item that is not sufficiently material to warrant separate presentation in … [financial] statements may warrant separate presentation in the notes.' AASB staff believe such a statement could reasonably be misinterpreted as indicating paragraph 31 refers only to disclosure in the financial statements and does not include the disclosure in the notes. Therefore, AASB staff support the suggested clarification of paragraph 31.*

Materiality within a Standard

27. Some people think that the statement in paragraph 31 of IAS 1 about not needing to disclose information if it is material relates to assessing whether an item in the financial statements is material. If it is material, they think an entity is required to disclose everything about that item that is set out in the related Standard – IFRS 2 *Share Based Payments* is the most quoted example.

28. Others think that paragraph 31 means that, within a Standard, there could be some specified disclosures that, for a particular entity, are simply not important enough to justify separate disclosure. The IASB will be asked to consider clarifying that the latter view is the appropriate application of paragraph 31.

29. *AASB staff support this suggestion, because materiality should pertain to information rather than items about which information is disclosed.*

Drafting Standards

30. Many participants said the way the disclosure requirements in some Standards are drafted implies that the item must be presented in all circumstances.

31. Many preparers and auditors see the requirements to disclose specified items as mandatory regardless of materiality, because those Standards do not mention that the disclosures are subject to materiality. Similarly, other preparers and auditors stated that the specific disclosure requirements in Standards appear to take precedence over the more general materiality overlay in IAS 1.

32. The IASB will be asked to consider less prescriptive wording in some forthcoming proposals. The IASB will work with auditors to ensure that any changes it makes do not affect the auditability of the Standards.

33. *As mentioned above in relation to 'Possible amendments to IAS 1', AASB staff think that, at the start of each Standard, a statement should be included that the Standard's requirements apply where information resulting from their application is material.*

Including this statement should effectively address the concerns noted immediately above.

34. *AASB staff do not support the suggestion that the IASB uses less prescriptive wording in some forthcoming proposals. This is because clarifying the application of materiality should obviate the need for less prescriptive wording. There is a risk that, with less prescriptive wording, entities might elect to omit material information, which would detract from the usefulness to users of the complete set of financial statements.*

Perceptions That Some Existing Standards Prevent Judgement

Presentation order

35. Investors consider financial statements to be disjointed, making it difficult to connect relevant information. Preparers stated that the reference in paragraph 114 of IAS 1 to the 'normal order' in which notes are presented makes it difficult for an entity to present explanatory notes in order of importance or to present related information in cohesive sections.

36. Examples were given of entities that had broken this mould with alternative presentation orders and how those presentation orders were well received by the market.

37. The IASB will be asked to consider amending IAS 1 to remove this perception of what is a normal order of presentation, making it easier for entities to provide more contextual and holistic information.

38. *AASB staff support the suggestion to amend paragraph 114 of IAS 1 to remove this perception and, to this end, suggest:*

    (a) removing from the first sentence of paragraph 114 any reference to the order in which notes should be presented; and

    (b) strengthening the first sentence of paragraph 113 to require notes to be presented systematically in a manner that assists users of financial statements in understanding the complete set of financial statements and identifying the most important information therein.

Accounting policies

39. Investors stated the accounting policy section is long and unhelpful and does not distinguish between the important policies and those that are simple descriptions of IFRSs.

40. IAS 1 only requires significant accounting policies to be disclosed. However, it also includes words that make it difficult to argue an accounting policy is insignificant. Some preparers interpret this as requiring an entity to disclose the accounting policy for any activities it undertakes.

41. Many preparers stated they would like to be able to either delete boilerplate accounting policy disclosures or relegate them either to a website or the back of the financial statements.

42. The IASB will be asked to consider amending IAS 1 so it is seen to be less restrictive about how accounting policies should be presented, making it easier for more important accounting policies to be given greater prominence in financial reports.

43. *AASB staff support the suggestion to amend IAS 1. However, rather than focusing on 'making it easier for more important accounting policies to be given greater prominence in financial reports', AASB staff suggest that the IASB clarifies the requirements in paragraph 117 – and that the accounting policy note should disclose policies particularly relevant to an understanding of the financial statements of that entity. Currently, it appears that many entities are providing a brief overview of the recognition and measurement requirements of many of the Standards. There seems little point for an entity to attempt to précis the requirements of an IFRS in its accounting policy note. The focus should be on the choices the entity has made in applying the IFRS, and any relevant techniques it has used in meeting the IFRS requirements that would not otherwise be evident to users.*

44. *AASB staff believe it would also be beneficial to have a similar clarification of the disclosure requirement in paragraph 30 of IAS 8* Accounting Policies, Changes in Accounting Estimates and Errors *regarding new IFRSs that have been issued but are not yet effective (and not been applied early by the entity). Entities should only make disclosures under paragraph 30 of IAS 8 about IFRSs they expect would apply to them and would have a material effect if the IFRSs were effective.*

Minimum disclosure requirements

45. IAS 1 has some very specific disclosure items that some preparers seem reluctant to adapt, or are discouraged from adapting to the specific circumstances of their entity, including requirements to disclose intangible assets (including goodwill), trade and other receivables, and trade and other payables.

46. The consensus among preparers and users is that an entity should be able to present, on the face of the primary financial statements, goodwill as a separate item and then other intangible assets, or trade receivables, as separate items.

47. Many preparers think that IAS 1 prevents them from doing so or that they must use the specific terms used in IAS 1.

48. The IASB will be asked to consider adding some additional explanations with examples of how the IAS 1 requirements are designed to shape financial statements instead of specifying precise terms that must be used.

49. *Having regard to paragraphs 55 and 57 of IAS 1, AASB staff think it should be clear that preparers are not prevented from adding additional line items or amending the descriptions of line items. Therefore, AASB staff do not believe it is necessary to add additional explanations and examples.*

Net debt

50. Over the last five years investors have asked the IASB to introduce a requirement that entities must disclose and explain their net debt reconciliation. Users think adding the requirement might reduce clutter by specifying how debt information should be disclosed. The IASB will consider proposing to add such a requirement to IAS 1.

51. *AASB staff would cautiously support such a proposal, given that it responds to user requests. Although it would involve additional disclosure, that disclosure might assist users to understand an entity's financial report and might reduce clutter.*

General Review of Disclosure Requirements

52. There were no comments made by participants in this section of the Feedback Statement, which noted IASB comments on concerns previously raised regarding disclosure requirements and suggestions that the IASB should conduct a general review of disclosure requirements.

Conceptual Framework

53. The *Conceptual Framework* is likely to include high-level principles – such as the type of information that should be disclosed in explanatory notes. The principles are also likely to explain the importance of setting clear disclosure objectives in a Standard and be designed to help the IASB in developing specific disclosure requirements. It is not intended that preparers will apply these principles directly. Accordingly, the *Conceptual Framework* will not have a direct impact on current disclosure requirements.

54. The IASB will be asked to consider beginning exploratory work on whether the work previously done on the Financial Statement Presentation project could form the basis of a research project. As a first step, IASB staff would review feedback on the original project in the light of the work on the Conceptual Framework and what the IASB has learned from its disclosure activities.

55. *AASB staff believe it is essential the IASB identifies principles that may underpin proposed presentation and disclosure requirements as a lasting solution to the problems of disclosure overload and a lack of cohesiveness of presentation and disclosure in financial statements. In recent debates, and in Section 7 of IASB Discussion Paper DP/2013/1* A Review of the Conceptual Framework for Financial Reporting *(July 2013), there appears to be an overdependence on the primary qualitative characteristic (QC) of relevance in determining which disclosures should be required, without supporting that QC by enunciating principles for disclosure requirements. In other words, relevance of itself is insufficient for determining a consistent and cohesive set of disclosure requirements across the suite of IFRSs (and would not solve the disclosure overload problem we have today), because almost any information about economic phenomena could be considered potentially relevant to users of some entities' financial statements.*

56. *In that regard, AASB staff note that an Essay[1] by the AASB Chairman (published on 14 August 2013) highlighting a principles-based approach to determining disclosure and presentation requirements will be discussed at the September 2013 Accounting Standards Advisory Forum meeting. That Essay contends there is a gap in the conceptual framework that, if filled, would improve our ability to provide accounting responses to users' needs, including through the development of a better, purpose-driven disclosure and presentation framework. The essay contends there are a limited number of generic types of information, termed "stocks" and "flows", that characterise all types of entities to one degree or another. The essay contends the gap*

1 http://www.aasb.gov.au/admin/file/content102/c3/AASB_Essay_2013-1_08-13_Disclosure_and_Presentation_Framework_Final.pdf

in the framework falls between the objective level and the lower levels. Both the objective and the stocks and flows identified are part of entities' environments. The selections of qualitative characteristics, elements, measurement bases and presentation/disclosure approaches are seen as accounting responses aimed at satisfying users' needs for information for decision making (the "objective"). Specification of the relevant stocks and flows could also bring meaning to "financial position" and "performance", and potentially provide a way to define financial reporting, bounding it by the generic stocks and flows identified.

57. *AASB staff believe that, in due course, the Board should express a view to the IASB that its activities to rationalise disclosure requirements in IFRSs are unlikely to achieve fundamental change without identifying the generic characteristics of an entity ("stocks and flows") that should be the subject of general purpose financial reporting.*

IAS 1, IAS 7 & IAS 8

58. IAS 1 and IAS 7 are the two main Standards that provide the general disclosure requirements in IFRSs, by shaping the primary financial statements and identifying the items that must be disclosed on the face of those statements and specifying the subtotals that to be reported. IAS 1 and IAS 7 were the focus of a major project on Financial Statement Presentation that was suspended in June 2010.

59. The Feedback Statement noted that, after reviewing the feedback on the Financial Statement Presentation project (see section above headed 'Conceptual Framework'), the IASB could consider whether, or how, it can develop the Financial Statement Presentation project in parallel with the work on the *Conceptual Framework* with a view to replacing IAS 1, IAS 7 and IAS 8. The outcome of such a project could, in essence, be a disclosure framework for IFRSs. The IFRS Foundation's website indicates that the IASB has decided to undertake this exploratory work.

60. *The AASB staff comments above on 'Conceptual Framework' also apply to this aspect.*

Other Standards

61. The Feedback Statement notes that the IASB will begin a research project to review disclosure more holistically in order to identify and assess conflicts, duplication and overlaps between Standards. This information will place the IASB in a better position to assess whether additional action is required.

62. As part of that review of disclosure requirements, the IASB will look at each individual Standard. The IASB expects to undertake that review over the next two years, although some Standards will be reviewed sooner, as part of the IASB's Post-implementation Review process.

63. *AASB staff support documenting conflicts, duplication and overlaps between disclosures in different Standards. Overcoming those concerns would:*

(a) *logically require a Framework for disclosure and presentation (see comments above); and*

(b) *be facilitated by rationalising the recognition and measurement requirements in different IFRSs (ideally, by broadening the scope of individual IFRSs). As was said in the AASB's submission on the IASB Request for Views* Agenda Consultation 2011 *(dated 9 December 2011), "narrow project scopes and resulting inconsistencies have contributed to voluminous and diverse disclosures being required in IFRSs because different decisions are often made on disclosure requirements on each topic". A recent example of this is the differences in disclosures between those proposed in the latest IASB ED on Leases (ED/2013/6) and those in IFRS 7* Financial Instruments: Disclosures *and IAS 16* Property, Plant and Equipment*. In other words, it is important that the IASB does not view this project as a discrete activity.*

Broader Issues

64. The Feedback Statement also discussed the broader issues regarding Technology, Mid-cap entities and Country-by-country reporting. There was a brief overview of what was occurring (or not occurring) in these areas and no particular comments from participants were noted. Key points regarding IASB plans in these areas are noted below.

Technology

65. There is a tension between data-oriented XBRL documents and the demands for financial statements to 'tell a story'. The IASB has begun integrating the development of its IFRS Taxonomy into the standard-setting function. Later in 2013, the IFRS Advisory Council intends to discuss the relationship between general purpose financial reporting and electronic filing of financial information.

Mid-cap Entities

66. Some have argued that the IASB should consider developing a differential disclosure regime relieving smaller listed entities from disclosing the same level of information as other IFRS adopters (i.e. develop a disclosure tier between IFRS for SMEs and full IFRSs). The IASB has no such plans. However, it acknowledged that any actions that reduce the disclosure burden are likely to benefit smaller listed entities proportionately more than the larger entities.

Country-by-country Reporting

67. The IASB has been asked to consider adding 'country-by-country' reporting requirements to its agenda. However, feedback from the 2011 *Agenda Consultation* highlighted that this should not be a priority for the IASB, and the IASB decided not to undertake proactive work in this area for the next 2 years.

Additional Issues Raised by AASB Staff

Specifying the Location of Disclosures

68. Occasionally, IFRSs identify particular disclosure requirements that can be met by cross-reference from the financial statements to some other source. For example, IFRS 7 *Financial Instruments: Disclosures*, paragraph B6, states:

> The disclosures required by paragraphs 31-42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. …

69. Virtually the same policy is proposed in paragraph 32 of IASB Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses*.

70. Staff do not believe it is the role of the IASB to indicate where disclosures required by the Standards are required or permitted to be located and consider that this is a matter for the standard setters and regulators in each jurisdiction.

71. Incorporation of disclosures by cross-reference can lead to operational issues concerning the audit of the information because the cross-referenced statement may not already be subject to audit in a particular jurisdiction. By specifically identifying particular disclosure requirements that can be met by cross-reference from the financial statements to some other source, the IASB is putting in place a potential barrier to the verbatim adoption of IFRS in some jurisdictions.

72. Perhaps a principle could be developed from the notion in paragraph B6 of IFRS 7 – along the lines that information that composes general purpose financial statements can be presented in one or more locations, provided it is available to users on a basis that preserves the cohesiveness of the financial statements (i.e. provided users can access a complete set of financial statements, regardless of which media are used to make them accessible and whether they are subdivided in some manner).

Materiality and the Problem of Biased Incentives

73. AASB staff think much of the difficulty surrounding the application of materiality is due to biased incentives for preparers, auditors and regulators, which penalise omitted information more heavily than excessive information in GPFRs. This problem is referred to on page 12 of the Feedback Statement. Because of those incentives, AASB staff think it is important for the IASB to acknowledge the limited contribution that providing additional guidance on materiality in IFRSs could make to overcome the ‘disclosure overload’ problem in IFRS-compliant financial statements, and to place the onus on regulators and others to address the biased incentives to prefer the risk of over-disclosure to under-disclosure (even though AASB staff support the IASB taking a lead role as a facilitator in addressing disclosure issues).

74. However, AASB staff think the Feedback Statement omits to emphasise an important way in which amending IFRSs could contribute to overcoming the disclosure overload problem in IFRS-compliant financial statements, namely: by including more conceptually-based (and thus generally simpler) recognition and measurements in IFRSs. AASB staff observe that the extent of disclosures in IFRSs often seems to be significantly due to the

complexity of the models and pragmatic features like anti-abuse rules, practical expedients and the omission of requirements to measure assets and liabilities at current values (in the latter instance, resulting in selective requirements to disclose information about the current values of assets and liabilities in notes).

75. AASB staff recommend that, in due course, the AASB makes these points to the IASB.

Questions for Board Members

Q1 Do you agree with the AASB staff recommendations set out in paragraph 8, including the recommendation regarding the general process for providing input to the IASB?

Q2 If the Board decides to write to the IASB regarding the Discussion Forum and Feedback Statement, do you agree with the staff's recommendation that the Chairman should approve the letter out of session, without using a Board Subcommittee?

Q3 Are there any other issues regarding the IASB Discussion Forum (and, in particular, the Feedback Statement) you wish to raise?