



CHARTERED ACCOUNTANTS  
AUSTRALIA + NEW ZEALAND

1 September 2017

Ms Kris Peach FCA  
The Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins St West  
Melbourne  
Victoria 8007

*By email: [standard@asb.gov.au](mailto:standard@asb.gov.au)*

Dear Kris

### **Submission on Invitation to Comment 35: Disclosure Initiative – Principles of Disclosure**

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to comment on the Invitation to Comment (“the ITC”). Our responses to the specific questions raised in the ITC are set out in Appendix A. Appendix B includes more information about CA ANZ.

We support the International Accounting Standards Board’s (IASB) project on Better Communication in Financial Reporting including the Disclosure Initiative and we agree that improving disclosures will enhance communication in financial reporting. We believe that the development of disclosure principles in a general disclosure standard will go some way to addressing the main concerns about the ‘disclosure problem’. However we also believe that the Standards-level Review of Disclosure project should be prioritised by the IASB for the full potential of the Disclosure Initiative to be realised.

We intend to make a joint submission with our strategic alliance partner; the Association of Certified Chartered Accountants (ACCA), in response to the IASB Discussion Paper DP/2017/1 Disclosure Initiative – Principles of Disclosure. We envisage our responses to this ITC will be broadly similar to those contained in our joint submission and we will provide a copy for your information.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Zowie Pateman (Acting Reporting Leader) via email; [zowie.pateman@charteredaccountantsanz.com](mailto:zowie.pateman@charteredaccountantsanz.com).

Yours sincerely

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## Appendix A: Responses to specific questions raised in the IASB Discussion Paper

### Question 1

- a) **Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?**

We agree with the causes listed in relation to the disclosure problem and believe that insufficient relevant information being provided is the most pressing concern. Inclusion of irrelevant information can also lead to the obstruction of useful information in the financial statements. Other factors contributing to the problem are the development of existing standards without any overarching principles resulting in inconsistent less meaningful disclosure requirements.

- b) **Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?**

We agree the development of disclosure principles would go some way to address the disclosure problem as they would provide guidelines for improving disclosure requirements in new standards and for addressing inadequacies in existing standards. Changing the specific disclosures at a standards level is crucial to addressing the problem. Disclosure principles should also help entities apply judgment and communicate information more effectively.

### Question 2

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

The Discussion Paper does not explicitly address the use of technology in financial reporting. Without full consideration of the impact of technology, any discussion concerning the communication, presentation and storage of financial information is not complete.

### Question 3

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

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

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

We agree with the principles as drafted as they seem to encapsulate the elements of effective communication.

- (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?**

We believe principles of effective communication should be included in IAS 1 or a general disclosure standard. In addition, non-mandatory guidance containing illustrative examples would be well received.

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

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

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

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

**Question 4**

**Do you agree with the Board’s preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?**

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

However, in our view the distinction between the notes and Primary Financial Statements (PFS) should not be overemphasised. Financial statements need to be presented fairly as a whole. We do not believe that a separate objective for the notes is necessary, as they cover a wide range of content not just analysis and assumptions.

**Question 5**

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

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

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

**(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)?**

Segment information and directors remuneration are often also reported outside the financial statements.

### Question 6

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

We agree that entities should not be prohibited from including non-IFRS information as the information provided may be useful to users in making decisions. We agree that this information must be clearly labelled as 'non-IFRS' and, if applicable, 'unaudited'. It should also be reconciled to the IFRS information. We do not agree that a list of such information and an explanation of why the information is useful is necessary, with the latter having potential towards boilerplate.

### Question 7

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

We do not believe that expressly prohibiting the inclusion of specific types of additional information in the financial statements is a feasible approach. If the IASB introduces requirements for performance measures, then any information that does not present a neutral picture of the entity or is not a faithful representation of the entity's performance would not be included. By way of example; any information that cannot be reconciled to IFRS information.

### Question 8

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

We agree with the proposals regarding EBITDA and EBIT on the basis that they are subtotals comprising IFRS financial statement line items. We do not agree that definitions should be developed for the presentation of unusual or infrequently occurring items. Each entity should communicate to their stakeholders how the measures used to describe performance have been determined.

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

We believe that prohibiting other terms could be inappropriate as there are many alternative terms. Entities should explain how their measures of performance are determined.

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

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

### Question 9

**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 performance measures can be useful and agree with the disclosure requirements as described in paragraph 5.34, for example:

- Having no more prominence than IFRS
- Reconciled to IFRS
- Explained as to why relevant
- Neutral, free from error, clearly labelled

- Contain comparatives
- Classified, measured and presented consistently
- Be clear whether they have been audited or not

#### Question 10

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

We agree with the IASB's preliminary view.

- (b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?**

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

#### Question 11

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

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

#### Question 12

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

Of the two options, our preference is for Method A. We are unconvinced of the usefulness of Method B as all operating assets would need the same disclosure. By way of example, a movement in inventory note may not be very helpful, but one on property, plant and equipment might be. Method B would also mean rewriting all existing disclosures, so this implication would need to be considered.

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

We do not have any other methods that could be used.

#### Question 13

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

We think that the IASB should retain disclosures in the separate standards, rather than a single one. However, these standards do need to be reviewed and revised for excess requirements and the language of the requirements.

We believe the Standards-level Review of Disclosures project is needed, and would result in centralised objectives in the Conceptual Framework, principles of communication in IAS 1 and a disclosure objective in each of the standards specific to the topic.

#### Question 14

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

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

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

We believe the 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?**

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

#### Question 15

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

In our view, the current drafting of the IFRS standards is a significant contributing factor to the disclosure problem. The current standards are inconsistent in their language. For example, most standards state "*The following shall be disclosed...*" where 'shall' is used to denote mandatory requirements. However IAS 1 indicates that items should only be disclosed if they are material. It is unclear which requirement takes precedence. The standards need to be clear which disclosures are subject to materiality and which are not.

#### Responses to AASB Specific Matters for Comment

- 1. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

- (a) not-for-profit entities; and  
(b) public sector entities, including GAAP/GFS implications.**

We do not see any particular issues in the Australian environment that may affect the implementation of proposals.

- 2. Whether, overall, the proposals would result in financial statements that would be useful to users?**

We envisage the proposals would result in financial statements that would be useful to users.

- 3. Whether the proposals would be in the best interests of the Australian economy?**

We believe the proposals would be in the best interests of the economy.

4. **Unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

Holistically, we believe the benefits of the proposals if implemented will outweigh the costs. We are not in a position to comment on quantitative financial costs.

## Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

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

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

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.