ACAG
AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

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Discussion Paper DP/2017/1 Disclosure Initiative – Principles of Disclosure

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the Discussion Paper. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG believes that the focus of the disclosure initiative should be on financial statement preparer behaviours (particularly in their application of professional judgement relating to materiality) to achieve the greatest improvement in financial reporting, rather than simply relying on changes to accounting standards.

ACAG supports many of the IASB's proposals in the discussion paper to improve financial reporting, including the proposal to develop a general disclosures standard. ACAG does however have reservations on proposals related to cross-referencing, the presentation of unusual and infrequently occurring items, and the separation of estimate and judgement disclosures. Our concerns are outlined in attachment A.

Yours sincerely

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Chairman
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Attachment A - ACAG answers to IASB questions

Sections 1 and 2 – Overview and Principles of effective communication

<u>Question 1</u>

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?

Yes, ACAG agrees with the description of the disclosure problems and the causes.

ACAG believes that preparers can improve their reporting under current standards by changing their behaviour, including adopting the recent IAS 1 amendments that clarify the "shall"/ minimum wording and focusing on what is material to users.

(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?

ACAG supports the development of a consolidated set of disclosure principles dealing with materiality, relevance and effective communication, and their inter-relationships. Because the issues of disclosure are pervasive, it would be appropriate to incorporate these principles within IAS 1.

<u>Question 2</u>

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?

ACAG has not identified any other critical disclosure issues, which it considers should be addressed as part of this project.

<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?

ACAG supports the development of effective communication principles for preparing financial reports to address the issues outlined in section 2.4 as tailoring disclosures to an entity's own circumstances can help to ensure that information is relevant and easier for users of the financial statements to understand.

(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?

ACAG agrees with and has no objections to the principles contained in paragraph 2.6. ACAG considers they provide preparers with a consistent approach to communicating financial information.

However, ACAG notes the natural tension between some items, for example (a) entity-specific, and (f) comparability. Comparability from year to year for the same entity as it adopts new technology and/or reporting initiatives may be difficult to communicate effectively.

In addition, ACAG believes that the principles are likely to be difficult to interpret by auditors and to enforce by regulators.

(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?

ACAG considers that the principles of effective communication should be prescribed as requirements in a general disclosure standard on the basis that preparers of financial statements are more likely to consider and apply them when compared to non-mandatory guidance. ACAG considers that having the principles of effective communication in a standard will make it easier for preparers to access, rather than having to go to a separate type of document like a practice statement.

(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.

ACAG agrees that the guidance on formatting should be non-mandatory and be informed by users' preferences.

ACAG supports the general principle of IASB encouraging the greater use of tables and graphs where appropriate. ACAG does however raise the following concerns relating to the proposed formatting guidance:

- It is too prescriptive, particularly in relation to tables and graphs.
- Using graphs may lead to the loss of valuable information if the underlying data is disclosed or otherwise made available elsewhere (for example, amounts expressed in pie charts, even if the amounts are expressed as percentages). While users may be able to extract the data using XBRL/iXBRL, ACAG believes the underlying data items should be searchable, and in particular, specifically disclosed if a printed or display format for the financial statements is used.
- It is not clear how newer techniques of presentation, such as audio and video, may affect financial statement disclosures and believe it should be addressed in this project.

ACAG notes that accessing implementation guidance in the form of IFRS Practice Statements can be difficult. Many jurisdictions (such as Australia) do not have local versions. Other issues include not knowing that the guidance exists, and difficulty in locating the material on the IASB and local standard-setter websites. To overcome these issues, ACAG recommends the implementation guidance be included as a non-mandatory part of the standard, similar to other standards.

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?

ACAG supports the IASB's view that a disclosure standard should describe the role of the financial statements, the role of the accompanying notes, and include guidance on the content of the notes.

However, ACAG does not agree with the Board's preliminary view on the term "primary financial statements" because "primary" is seen as potentially misleading to the users of financial reports. The label "primary" financial statements implies that they are the major source of information, and that by default the information in the notes is secondary or minor in nature. ACAG believes that the information in the notes can be very valuable, for example in relation to commitments and contingent liabilities, and matters relating to fair value disclosures. Therefore, ACAG suggests that the term 'primary' is not used to describe the four financial statements (statements of financial position, financial performance, changes in equity and cash flows.)

ACAG supports the IASB's proposed approach relating to the application of the terms 'present' and 'disclose' as the terms are currently not used exclusively in the manner intended. That is, the term 'present' should result in providing information in the four main financial statements, whereas 'disclose' usually describes providing information in the notes.

Section 4 - Location of information

Cross-referencing

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?

ACAG disagrees with the IASB's intention to introduce a principle to permit additional cross-referencing, until the IASB has addressed numerous practical issues. These issues include those identified in the UK FRC Financial Reporting Lab report "Digital Future" and included in our response to (b) below. ACAG supports the IASB in seeking to address these issues.

ACAG believes that the proposed requirements under paragraph 4.9(b) (i.e., "makes the annual report as a whole more understandable, the financial statements remain understandable") as unenforceable. In particular, ACAG does not believe that auditors should be responsible for enforcing the "makes the annual report as a whole more understandable" requirement. This is due to the annual report not being within the scope of the auditor's responsibility to audit. In addition, the annual report in Australia is often prepared later than the audited financial statements causing timing issues.

(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)?

ACAG did not identify any specific scenarios that need an immediate expansion of the current restrictions on cross-referencing information out of the financial report.

ACAG believes that the cross-reference should lead the user directly to the particular information, i.e., the cross-reference should be clear to what information has been cross-referenced and to where. ACAG believes that the proposed requirements are not strong enough to ensure that this would occur. Preparers may use cross-references to "hide" or "lose" information by making it difficult for users to access/find the relevant IFRS information in a lengthy disclosure. ACAG believes that users should not have to "wade through" information trying to find the particular disclosure.

In addition, will the cross-reference be to information that may change, or even be removed with the passage of time? That is, the information needs to be available (unchanged / accessible) over time. While this issue was identified in paragraph 4.24(d), it has not been included in the paragraph 4.9 requirements.

ACAG objects to critical information being cross-referenced out of the financial statements. Such information might include the primary financial statements, significant accounting policies, and the index to significant accounting policies. Additionally, the proposals appear to prevent linking to a website that may be useful in some circumstances.

ACAG believes that if a user requests a copy of the financial statements, then they should have access to all of the information required by the IFRSs to be included in the financial statements. ACAG notes that the proposed restrictions relating to non-IFRS information will be difficult to enforce when a considerable part of the material cross-referenced to may be non-IFRS information.

The proposals may also increase costs to users, in both time and money. Firstly, the effort in obtaining the additional document (if it is not provided with the financial statements) and secondly, the potential cost for that document if it is not available for free.

Non-IFRS information

<u>Question 6</u>

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?

ACAG agrees with the IASB's preliminary view not to prohibit 'non-IFRS' information. However, ACAG notes that such additional information disclosures can make financial statements more complicated when too much peripheral information is added.

ACAG notes that there is diversity in practice of regulators assessing whether information is 'non-IFRS information'

ACAG believes that the addition of 'non-IFRS information' should lead to better quality information, which is a higher threshold to meet than the IASB's proposed requirement that the information be useful (must be relevant and faithfully represented). However, ACAG does not believe a criterion can be meaningfully identified to ensure consistency of what this non-IFRS information could be for each entity, which could then be readily enforced.

ACAG agrees with the intent of paragraph 4.38(c) for the entity to "to explain why the information is useful and has been included in the financial statements". However, ACAG believes that the proposed requirement is insufficient.

If the IASB decides to retain a requirement similar to paragraph 4.38(c), ACAG believes that the disclosures should be required to clearly explain why the non-IFRS disclosures are useful (i.e. why IFRS is not sufficient), and whether that information was audited, where required. However, ACAG notes that a requirement to explain why IFRS is not sufficient is likely to lead to a boilerplate type disclosure.

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?

ACAG notes the examples and reasoning provided by the IASB for not prohibiting information inconsistent with IFRS standards. ACAG did not identify any specific types of information that should be prohibited.

Section 5 - Use of performance measures

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?

ACAG agrees with the IASB's preliminary views regarding the use of sub-totals, such as EBITDA and EBIT. However, ACAG notes that the IASB's preliminary views do not clarify the following situations:

- hybrid expense classification on the face of the income statement. For example, a company provides an expense breakdown on the face of the income statement using a hybrid of the 'nature' and 'function' classification
- when EBITDA is calculated in the notes (or outside the financial statements) rather than presented on the face of the statement of financial performance. In particular, whether disclosing EBITDA in the notes would make it "non-IFRS" information, and therefore subject to the proposed restrictions.

(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?

ACAG disagrees with the IASB's preliminary views to develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items.

ACAG believes that IAS 1 paragraph 112 already requires disclosure of items that are of the nature of unusual and infrequent:

> *112 The notes shall:*
>
> *…*
>
> *(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.*

ACAG considers that such items termed as 'unusual and infrequently occurring' will be difficult to audit, and we will revert to the situation under the former IAS 1 that permitted abnormal and extraordinary items.

If the IASB does decide to pursue this proposal, ACAG has significant concerns with the definitions included in paragraph 5.24:

- In relation to the definition of 'unusual', ACAG disagrees with the use of the term 'abnormal'. ACAG also disagrees with the use of the term 'incidentally', as that term is difficult to apply to a consolidated group, which will often have diverse operations/activities.
- In relation to the definition of 'infrequent', ACAG notes that neither the Merriam-Webster or Dictionary.com definitions refer to not reasonably expected to recur. While the definitions refer to uncommon, or seldom occurring, neither imposes this additional restriction.

(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?

ACAG is not aware of any other areas that the Board should consider when developing requirements for the presentation of unusual or infrequently occurring items in the Statement of Financial Performance.

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?

ACAG support the Board's preliminary view about the proposal to introduce requirements for all performance measures in the financial statements, as expressed in paragraph 5.34.

However, ACAG's views on the use of sub-totals is similar to the views of users noted by the IASB. That is, sub-totals can provide useful information if used for an appropriate purpose, for example, excluding the impact of depreciation in certain circumstances, but is misleading if used to remove the abnormal or unusual items for presentation reasons.

ACAG notes paragraph IN16 that the primary users are considered to have:

> *a reasonable knowledge of business and economic activities and review and analyse the information diligently.*

ACAG believes that the use of sub-totals, particularly the exclusion of "once-off" items are used occasionally and tend to focus on expense items, and fails to treat income items in a similar manner.

However, ACAG would like additional focus on complete information being given for adjusted items, including financing expenses, taxation, and cash flows.

Section 6 - Disclosure of accounting policies

Question 10

The Board's preliminary views are that:

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

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

ACAG agrees with the IASB's proposals in paragraph 6.16 (the three categories of accounting policies) as these will reinforce better disclosure practices.

ACAG also agrees with IASB's proposal not to prohibit the disclosure of Category 3 accounting policies. Sometimes these polices have some relevance, for example rounding, and Goods and Services Tax (GST).

ACAG agrees that if Category 3 policies are to be disclosed, they should not obscure material information or make the financial statements more difficult to understand. ACAG believes that auditors and regulators will not be able to enforce exclusion of such policies, ACAG considers permitting Category 3 policies may, on balance, provide useful information.

ACAG notes that it is unclear whether under the restrictions on the definition of 'annual report' (refer Question 5 above) companies would be permitted to cross-reference Category 3 accounting policies to their website. The confusion arises because the definition of annual report would appear to exclude websites, however, if Category 3 accounting policies were not material then the cross-reference would appear not to be subject to the proposed restrictions.

(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.

ACAG supports the proposal for a combination of 6.22 (a) and (b).

In our experience, while users prefer the approach in paragraph 6.22(b), ACAG does not believe the approach should be mandated.

ACAG believes that Category 1 accounting policies should not be cross-referenced out of the financial statements (refer to our response to Question 5 above).

ACAG believes that the proposed index of accounting polices (paragraph 6.23) be located 'at or near the beginning' of the financial statements. This is more restrictive than the IASB's proposal of index of note, which could be located anywhere in the financial statements.

ACAG believes that the index should not be cross-referenced out of the financial statements (refer to our response to Question 5 above).

Location of significant judgements

ACAG supports the proposals that would allow users to see in one glance a list of where to locate all the significant management judgements.

ACAG agrees with the IASB's proposals for a rebuttal presumption to disclose significant management judgements and assumptions adjacent to disclosures about the related accounting policies.

Disclosure of significant estimates

ACAG interprets the IASB's proposals as not requiring the disclosure of significant management estimates in a manner similar to significant judgements. ACAG disagrees with such a proposal if that was the intent. Our view is in practice most estimates will involve a combination of judgement, complexity and estimation uncertainty. We further believe that these three elements are inextricably linked, with judgement and complexity being causally related to the estimation uncertainty. We note that in practical terms, it would be difficult to separate significant judgements from estimates.

ACAG believes that the disclosure of significant management estimates should be included with the disclosure of significant judgements.

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?

ACAG supports the IASB's proposal to develop a central set of disclosure objectives.

ACAG interprets the IASB as having a very narrow view of management stewardship as shown by paragraph 7.17(f):

(f) *management's stewardship, for example, information about management compensation and other transactions with management*

ACAG objects to such an interpretation if it the IASB's intention. ACAG believes that management stewardship has a far wider application than that described in 7.17 (f), including going to how assets and entity resources are managed.

ACAG notes that Section 7 proposes that the centralised disclosure objectives would be used by both preparers and the IASB. We note that the conceptual framework is usually the appropriate location for such overarching frameworks that the Board uses to develop the accounting standards.

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?

ACAG prefers the current hybrid approach for current IFRSs that is based mainly on Method A, with the grouping of related disclosures when appropriate (e.g. IFRS 7 and IFRS 12).

ACAG supports the list of advantages that are outlined by the Board in paragraph 7.20. In particular, this approach would explain and articulate the Board's current method and would not require fundamental changes to IFRS standards.

ACAG believes that Method B will be harder for preparers to implement, for auditors to audit, and will not result in better financial reporting.

Additionally ACAG has the following concerns with Method B for current IFRSs:

- Our public sector experience is contrary to the view expressed in paragraph 7.32, with many general ledgers set up like financial statements focusing on the type of account rather than activity
- The example drafting in Appendix A provides very little guidance. Preparers are likely to omit disclosures without a reminder list of items that should be disclosed. We highlight the reference in paragraph 7.3 which references the Conceptual Framework paragraph 7.16:

  Including specific presentation and disclosure objectives in a Standard enables an entity to identify relevant information and decide how to communicate that information in the most efficient and effective manner.

- It is a fundamental change, and it is not clear that this method will be effective in getting the desired outcome, particularly when the disclosure overload issue is partly behavioural.
- It would require a long time period to develop new standard. There is no need to delay as some entities have already improved their reporting under the current approach.

- If there were one standard that is updated regularly, then this would cause problems for users in trying to determine which version of the standard to use (a problem that already exists with IFRS 1 and IFRS 7). There would be additional implementation implications for jurisdictions that have standards with legislative enforceability (such as Australia) which can result in multiple different versions of the same legislative instrument (standard).
- ACAG notes the current difficulty with cash flow statements and distinguishing between operating, investing, and financing activities and the different approaches adopted for interest payments.

(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.

ACAG were unable to identify any other suitable methods that could be considered by the IASB.

<u>Question 13</u>

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?

ACAG would prefer the disclosure objectives be contained in each standard. ACAG believes that it is helpful for users to be able focus on the particular standard, rather than having to refer to another standard and having them substitute the words from the general disclosure to the specific topic. Having the tailored disclosure objective in each standard will help preparers focus on the same objective, and for preparers to understand how the disclosures interact with the recognition and measurement requirements.

Section 8 Drafting disclosure requirements

<u>Question 14</u>

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)?

ACAG believes that the NZASB's staff approach provides too much flexibility as to what should be included, is not enforceable, and is likely to lead to less disclosure of relevant information.

In particular, ACAG objects to the use of "consider" to determine whether an item should be disclosed. In our experience, many preparers view financial statements as a compliance burden and want to simply disclose the minimum in the financial statements. Preparers often respond to requests for disclosure along the lines of "show me where I am required to disclose this". We expect that preparers will respond to the use of the term "consider" by responding along the lines of "yes, we did consider the disclosure, and decided not to include it". Consequently, disclosures that should be made under tier 2 will not be made.

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

ACAG prefers the current approach of "shall / minimum disclosure" terminology with supporting application guidance in the IAS 1 amendments, even though it has the risk of 'over' disclosure. ACAG prefers that approach than the use of the term "consider" where preparers are likely to 'under' disclose.

ACAG encourages the IASB to pursue the approach of multiple tiers of disclosure, with minimum disclosure requirements and suggested additional items, though without using the word "consider". ACAG are of the view that the NZASB approach would not 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).

ACAG consider, based on our feedback provided above, that the Board should not consider the NZASB approach as part of their Standard-level Review of Disclosures project.

<u>Question 15</u>

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.

ACAG are of the view that the disclosure problems that were identified in the Discussion Paper are a combination of preparer behavioural issues and the way the IFRS standards have been drafted. For example, some IFRS standards such as IFRSs 7 and 13 relating to financial instruments' disclosures and fair value measurements contain extensive disclosure requirements.

Adding to the disclosure problems identified, preparers remain unclear on what financial information the users of their financial reports really need and/or use. They are unable to effectively apply their judgement because they do not have the necessary evidence or data to support such a judgement.

ACAG believes that preparers can dramatically improve their financial reporting by changing their behaviour, including adopting the recent IAS 1 amendments that clarify the "shall" / minimum wording and focusing on what is material to users. ACAG also believes, after taking into account our comments above, that the overall quality of financial reporting could be improved by the Discussion paper proposals.