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Australian Accounting Standards Board (AASB)
Podium Level
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To whom it may concern

DISCUSSION PAPER DP/2017/1 DISCLOSURE INITIATIVE – PRINCIPLES OF DISCLOSURE

The Group of 100 (G100) is an organisation of chief financial officers from Australia's largest business enterprises which aims to lead the national debate on key financial and business issues which impact business performance, regulatory oversight and the nation's competitiveness. The G100 looks to be at the forefront of strategic financial management and thought leadership and as such, we are pleased to provide comment on the discussion paper Disclosure Initiative – Principles of Disclosure (the discussion paper) and supports the efforts of the IASB and AASB to improve communication in financial reporting.

The G100 has been a strong supporter of principles-based disclosure for many years which is evidenced by our 2009 publication entitled "Less is More", where we noted that, "The G100 believes the time is appropriate to consider a principles-based framework for assessing current disclosures and developing new disclosure requirements".

Please find below a list of our responses to the questions.

Yours sincerely
Group of 100 Inc

Zlatko Todorcevski
President

SECTION 1 – OVERVIEW OF THE “DISCLOSURE PROBLEM” AND THE OBJECTIVE OF THIS PROJECT

Question 1

Paragraphs 1.5 – 1.8 describes the disclosure problem and provide an explanation of its cause.

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?

G100 response:

We agree with the description of the disclosure problem and that it is not solely caused by the Accounting Standards.

A disclosure principle would assist in clarifying that judgement is appropriate when determining what disclosures to include and exclude, albeit this judgement is both deemed to be currently available and is often compromised by local regulations. We believe this would allow for flexible entity specific reporting that is focused on the objective of the respective disclosure.

Question 2

Sections 2-7 discuss 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?

G100 response:

The development of a disclosure principle does not necessarily address the over-disclosure burden arising out of compliance with Accounting Standards. This may be better addressed through the assessment of disclosure requirements in individual Accounting Standards rather than in IAS 1 or through a new disclosure standard.

SECTION 2 – PRINCIPLES OF EFFECTIVE COMMUNICATION

Question 3

The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance.

The Board is also of the preliminary view that is 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 2.36? 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.

G100 response:

We agree that principles of effective communication will assist in improving financial reporting and that the principles listed are appropriate for this purpose.

As outlined above, we feel that judgement in disclosures is already available and therefore whether prescribed in a general disclosure standard or issued as non-mandatory guidance will likely be inconsequential to the outcome.

Whilst non-mandatory formatting guidance, if in the form of examples, may be useful to some preparers, we do not believe this should be a focus of the project or discussion paper.

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 3.1.

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?

G100 response:

We agree on the additional guidance on the roles of the primary statements and notes. Clarification of the 'primary financial statements' is not considered necessary as they are generally well understood.

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 paragraph 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 paragraph 4.9(a)-(c)?

G100 response:

Given the diversity in practice, the G100 welcomes principle-based guidance on the use of cross-references.

We do have a concern that prescriptive definitions may limit the usefulness and/or usability of cross-references as interpretations of what makes up an "annual report" for example in today's digital reporting environment. Additional consideration and guidance should be given to audit and regulator implications for a broad allowance to cross-reference.

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 is has identified an "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 paragraph 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?

G100 response:

We agree with the Board's preliminary view but believe it should be clarified that the primary focus for the guidance should be on financial information that supplements information prepared in accordance with the Accounting Standards rather than replaces it as a separate matter to non-Accounting Standard based items that do not have an equivalent IFRS measure.

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?

G100 response:

By prohibiting information being presented there is an increased risk that information relevant to users may be excluded from a financial report and therefore we don't believe a prohibition is appropriate. Additionally, the intention to list the non-IFRS information in the statement of compliance appears burdensome and unnecessary (also creating duplication and length) when a footnote or alternative annotation could be used to better effect.

SECTION 5 – USE OF PERFORMANCE MEASURES IN THE FINANCIAL STATEMENTS

Question 8

The Board's preliminary views are that it should:

- clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:
  - the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and
  - the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.
- develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.

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

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

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

The feedback on Question 8 will be considered as part of the Board's Primary Financial Statements project.

G100 response:

The calculation metrics of EBIT and EBITDA, whilst commonly understood, is still subject to some judgement depending on the company, industry and jurisdiction of the reporter. The development of a definition of these metrics may compromise the appropriateness of these metrics to some companies.

We do agree with the IASB and AASB providing guidance for adjustments to performance amounts given it is often the approach for discussions outside of an IFRS based report. We do not believe that definitions of unusual or infrequently occurring items is appropriate as the frequency, or lack thereof, is often not the driver for their separate identification. Equally, we note that historically the classifications of items within standard definitions of "abnormal" or "extraordinary" did not improve financial reporting. The objective of separate disclosure on significant items is to provide useful information to the users. Judgement should be applied for such disclosure based on entity or industry specific, and economic environment factors, instead of following a list of definitions.

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?

G100 response:

We agree that a general disclosure standard providing guidance on how performance measures can be fairly presented in financial statements would be useful and with the qualitative proposals in the discussion paper.

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?

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.

G100 response:

We are of the view that accounting policy disclosures can often be too boiler-plate leading to them not being useful.

Further, we believe that accounting policies disclosed should focus on judgements, estimates and assumptions that are material to the financial statements.

If the guidance, albeit non-mandatory, from the IASB / AASB on the form and location of accounting policies is prescriptive, this may lead to further boiler-plate or redundant disclosures.

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?

G100 response:

We agree with the development of centralised disclosure objectives as an efficient and effective means of clarifying the boundaries of the financial statements and associated notes.

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.

G100 response:

We consider Method B to be the most appropriate approach for developing and organising disclosure objectives and requirements. This is because such an approach is likely to provide more relevant and insightful disclosure on the entity itself. Equally, a hybrid method of A and B may allow prepares to better understand the objectives whilst still being able to provide relevant and insightful disclosure.

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?

G100 response:

Whilst we acknowledge that locating all disclosure objectives and requirements within a single Accounting Standard is likely to give rise to a more holistic approach to disclosure, this should only be considered where the disclosure requirements of all Accounting Standards are reconsidered to ensure there is no inconsistencies that would cause the single disclosure Accounting Standard to be effectively redundant.

SECTION 8 – NEW ZEALAND ACCOUNTING STANDARDS BOARD STAFF 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).

G100 response:

We agree with the NZASB's proposed two-tier approach, and less prescriptive wording to disclosures as this provides the entity with an opportunity to balance comparability and entity-specific disclosures. We do note that this approach will require buy-in from jurisdictional regulators.

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.

G100 response:

The current Accounting Standards do contribute to the disclosure issue because preparers, auditors and regulators often take a *checklist* approach in preparing financial statements rather than exercising judgement in what and how to disclose.

As proposed by the Discussion Paper, a set of disclosure objectives may improve this, however, it is incumbent upon the preparers, auditors and regulators to effectively apply these objectives in order for the disclosure problem to be addressed.