AUSTRALIAN INSTITUTE *of* COMPANY DIRECTORS

Level 30
20 Bond Street
Sydney NSW 2000
www.companydirectors.com.au
ABN 11 008 484 197

T: +61 2 8248 6600
F: +61 2 8248 6633
E: contact@aicd.com.au

4 September 2017

Chair, International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH

Via 'Comment on a Proposal' page: go.ifrs.org/comment

Dear Chair

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

Thank you for the opportunity to provide a submission on the Discussion Paper DP/2017/1 Disclosure Initiative – Principles of Disclosure ("the DP").

The Australian Institute of Company Directors (AICD) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 40,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

The AICD supports the International Accounting Standards Board's objective to improve the quality and nature of disclosures. The extent of disclosures is seen by the AICD and its members as being a key inhibitor to the effective communication in financial reporting. We support the main objectives of the DP, being to identify disclosure issues and develop new, or clarify existing, disclosure principles in IFRS standard to:

- Help entities to apply better judgement and communicate information more effectively;
- Improve the effectiveness of disclosures for the primary users of financial statements; and
- Assist the International Accounting Standards Board (IASB) to improve disclosure requirements in international accounting standards.

However, we are disappointed at the limited progress of this initiative to date and the lack of work on disclosure overload. This is particularly a concern with new standards continuing to be issued without any significant progress on streamlining existing standards. While we understand that a standards-level review is planned, we would encourage this work to be considered a priority and undertaken in parallel with the development of principles of disclosure.

AUSTRALIAN INSTITUTE
of COMPANY DIRECTORS

The AICD strongly supports the IASB work on performance measures, as it will bring some international consistency to the presentation of alternative performance measures (or non-IFRS information) which is a common occurrence amongst listed companies globally.

We consider that allowing non-IFRS information within the financial report, and particularly on the face of the financial statements, could improve the relevance of the financial report as it should allow organisations to tell their story in a way that is most appropriate for their circumstances and operations. We also support the inclusion of fair presentation requirements in relation to non-IFRS information with the aim of reducing the risk of misleading users.

We encourage the IASB to fully explore the benefits that technology can bring to the improved presentation of a financial report, such as the ability to cross reference to website content for information that does not change year to year (for example, certain accounting policy information).

We have included detailed comments on the specific questions in Attachment A.

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Kerry Hicks, Senior Policy Adviser, on 61 (0) 28248 6635 or at khicks@aicd.com.au.

Yours sincerely

LOUISE PETSCHLER
General Manager, Advocacy

ATTACHMENT A: RESPONSES TO THE SPECIFIC MATTERS FOR COMMENT

1. **Paragraphs 1.5-1.8 describe the disclosure problem and provide an explanation of its causes.**
   (a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?
   (b) Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

   While the AICD generally concurs with the description of the disclosure problem in the DP, we consider it to be incomplete. The AICD considers that one of main disclosure problems remains disclosure overload. Disclosure overload leads to the inclusion of irrelevant information and increases the density of reporting information without clear benefits to preparers and users, reducing the effectiveness of communication through the financial report.

   As the DP notes, inconsistency and challenges in the application of judgement by preparers is a significant contributor to the disclosure problem. However, the AICD also considers that one of the causes of disclosure overload is the development of standards by the IASB on an individual issues basis, without following any clear overarching principles or challenging existing disclosures. As a result, disclosures grow with every new or revised standard released by the IASB, adding further complexity and detail.

   The development of disclosure principles may assist with the disclosure problems identified in the paper. In the AICD's view, the standards-level review project will also be critical in addressing the disclosure problem. The IASB's efforts to improve the application of materiality to financial statement disclosures is also critical to improving disclosure.

   A specific aim of the standards-level review project should be to remove disclosures that are irrelevant or cost more than any perceived benefit to primary users. While we understand that a standards-level review is planned as part of the overall Disclosure Initiative work, we would encourage this work to be considered a priority and undertaken in parallel with the development of principles of disclosure.

2. **Are there any other disclosure issues that the IASB has not identified in the Discussion Paper (sections 2 – 7) that you think should be addressed as part of the Principles of Disclosure project? What are they and why do you think they should be addressed?**

   No.

3. **(a) Do you agree that the IASB should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not?**
   (b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest and why?
   (c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be presecribed in a general disclosure standard or issued as non-mandatory guidance?
   (d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?

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

We agree that the IASB should develop principles of effective communication when preparing financial statements. Although there are already communication principles published in individual jurisdictions, we see merit in having international principles in place.

We have no objection to the principles of effective communication outlined in paragraph 2.6 of the DP. However, we note that some of these principles overlap with the qualitative characteristics in the Conceptual Framework. For example, comparability of information is listed as an effective communication principle but is also part of the Conceptual Framework. Further, the effective communication principle of being 'entity-specific' is related to the Conceptual Framework concept of 'relevance'.

In light of the comments above, we suggest that perhaps a better option than a separate standard or non-mandatory guidance is to provide more detail on these within the relevant Conceptual Framework qualitative characteristics of useful financial information. This could either be included directly within the Conceptual Framework or as an Appendix or Attachment within the Conceptual Framework.

Further, in regards to providing non-mandatory guidance on formatting, we consider that a broader discussion on technology developments and their impact in this area is an important consideration. We support further work to accommodate technology neutral guidance.

4. **The IASB's preliminary view is 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 to 3.24;**
   - **Describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanation and supplementary information, as referred to in paragraphs 3.26 and 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 IASB'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 diclosed in the notes; and**
   - **If it uses the term '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 IASB's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

   We agree with the IASB preliminary views. However, we consider that the IASB's definition of the primary financial statements should be a rebuttable presumption, so that in instances where the defined primary financial statements are not relevant, other more relevant statements can be presented instead (for example, a statement of movement in members' benefits for Managed Investment Schemes).

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

   (b)Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3 – 4.4), for which you think an entity should or should not be able to provide information necessary to comply with the IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a) – (c)?

   We agree with the IASB preliminary view expressed in (a) above, as this would reduce unnecessary duplication and support technology neutrality. However, we note that the use of the term 'annual report' has not been defined and this could mean different things in different jurisdictions. We note that the Financial Stability Board's *Recommendations of the Task Force on Climate-related Financial Disclosures* uses the term 'mainstream financial filings' instead of annual report. Also, we note that ISA 720 *The Auditor's Responsibilities Relating to Other Information* does have a definition of 'annual report'.

   In Australia we have some overlap between the requirements in IFRS Standards and our Corporations Law, specifically regarding the requirement for a Remuneration Report. The Remuneration Report is required outside of the financial report but within the directors report. This leads to duplication including disclosures relating the loans to, and other transactions with, key management personnel. Another example of duplication relates to information about the terms and conditions of share-based payment schemes required by IASB 2 *Share-based Payment.* It would be helpful if this information could be cross referenced to eliminate duplication as it would meet the criteria in paragraphs 4.9(a) – (c).

6. **Do you agree with the IASB's preliminary view 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)?**

   Why or why not? If you do not agree, what alternative(s) do you suggest and why?

   We support the inclusion of non-IFRS information in the financial statements, where relevant and as long it is not presented in a misleading way. This information is often helpful for entities to be able to tell their story and will provide a much better link with the information communicated (through media releases and investor packs) to shareholders. This could improve the relevance of the financial reporting pack to stakeholders.

   Regarding the requirements in paragraph 4.38(a) – (c), the AICD supports the identification of such information as 'non-IFRS'. However, we do not believe including such information should impact on the statement of compliance with IFRS. Further, we do not consider that it would be useful to include motherhood or boilerplate statements as to the reason why non-IFRS information is useful. Such statements will simply add to disclosure overload.

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

   Yes, we believe the IASB should prohibit the inclusion of information that cannot be reconciled to IFRS information in some way.

   Further, we consider that any additional financial information included in the financial statements should be capable of being audited. Having some information in the financial statements audited and some information unaudited is likely to confuse users of the financial statements.

8. **The IASB'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 or 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 IASB's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

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

   (c) Are there other issues or requirements that the IASB 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 AICD agrees with the IASB approach to clarify that EBIT/EBITDA are valid performance measures that can appear on the face of the statement of financial performance. This is necessary due to various regulator interpretations of such performance measures. These could be referred to as examples and could be defined by the IASB.

   However, we do not see the need for the IASB to link the disclosure of EBIT/EBITDA to the entity's decision to disclose expenses by nature or function. Frequently we have observed that the entity displays a mix of nature/function expense disclosures on the face of the statement of financial performance, with additional information disclosed in the notes as required by IFRS. We believe the entity should still have the flexibility to display information on the face of the statement of financial performance in the way that best communicates to their stakeholders.

   The AICD does not support the IASB developing definitions of unusual or infrequently occuring items. We consider it is more important for entities to explain how the measures have been determined rather than use a label, such as 'unusual', 'infrequent', etc. We suggest that the IASB should review the broad usage of the type of adjustments made in practice to determine 'underlying profit' or 'alternative earnings' or the like . The AICD considers that such adjustments are not always 'unusual' or 'infrequent' but are commonly made to adjust the result to reflect the ongoing business activities of the company or some form of an 'underlying performance' measure.

We do not support the IASB prohibiting the use of other terms to describe unusual or infrequently occuring items as discussed in paragraph 5.27 of the DP. In the AICD's view, directors and management should be able to use whatever term is appropriate within the context of the business to describe such adjustments. As long as these are reconciled to IFRS and adequately explained (with some appropriate presentation principles), we consider this is sufficient disclosure.

We look forward to further consultation on these matters.

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

The AICD is broadly supportive of the inclusion in the general disclosure standard a description on how performance measures can be fairly presented, as outlined in paragraph 57 of the DP. We also consider some clarity be given around the term 'performance measures' to ensure only 'financial performance measures' are addressed by the IASB.

In Australia our regulator, the Australian Securities and Investments Commission, issued a Regulatory Guide in 2011 to guide such presentation of non-IFRS financial information (Regulatory Guide 230 *Disclosing non-IFRS financial information*). The guidelines outlined by the IASB are broadly consistent with the guidelines issued by our regulator. However, we note that (c) outlined in the DP could simpy focus on relevance and/or usefulness (that is, no need for (c) (ii) to (iv)). Further we do not support the inclusion of (c) (iii), since a reconciliation should be mandatory.

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

If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a) – (c)) and give your reasoning.

We agree that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16(a). However, we do not support the split into the three categories and would instead support a two category approach, as outlined below.

One of the disclosure overload issues evident in the financial report is the lengthy accounting policy disclosures. Many of these disclosures are boilerplate and do not change from one year to the next. We consider that this presents an opportunity for the

IASB to incorporate technology solutions by referencing to accounting policies online that are consistent from year to year and reflect mandatory requirements of IFRS.

We consider that the basis for the two categories should be the determination of which accounting policies must accompany the financial statements versus which accounting policies are able to be disclosed via cross reference on a company's website. We do not consider that there is any need for a third category containing information on policies that are not material to the financial statements.

Category 1 accounting policies must be disclosed within the financial report fully and relate to material accounting policies that have:

- Changed during a reporting period (including new policies)
- Been chosen from alternatives allowed in IFRS Standards
- Changes in significant judgements andor assumptions.

Category 2 accounting policies, significant estimates and judgements are those material items not included in Category 1, are required in accordance with IFRS standards and are consistent with the previous financial year. These accounting policies should have an option to be included via cross reference as long as they are clearly displayed on the company website.

11. Do you agree that the IASB should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

The AICD agrees that providing an overall disclosure framework in the form of objectives, will promote consistency for the IASB standard setters when determining disclosures. As the number of standards have increased, consistency has been lacking since the disclosures have been determined in isolation on a standard-by-standard basis.

12. Which of Method A (focussing on assets, liabilities, equity, income and expenses) or Method B (focussing on information about an entity's activities) do you support as the basis for developing centralised disclosure requirements and why?

We can see the benefit and the disadvantages in both methods and are not in a position to provide a view without further discussion and analysis. We recommend the board explore these issues further before undertaking further consultation.

13. Do you think that the IASB 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?

The AICD supports a centralised disclosure standard containing overarching disclosure objectives for financial statements and signposting. Topic based standards can then contain sub-objectives and the detailed requirements. For some complex topics (like financial instruments) there is clearly benefit in 'grouping' disclosure requirements into one standard. However, for other topics the disclosures would be best contained in the same standard to which they relate.

14. Do you have any comments on the NZASB staff's approach to developing the disclosure objectives and requirements in IFRS Standards? Do you think that the development of such an approach would encourage the provision of enhanced disclosures by entities?

Do you think the IASB should consider the NZASB staff's approach (or aspects of the approach) in its *Standards-level Review of Disclosures* Project? Why or why not?

The NZASB staff's approach to developing disclosure objectives and requirements in IFRS standards looks interesting – in particular the development of Tier 1 and Tier 2 disclosures with Tier 1 being the summary disclosures and Tier 2 providing more details if required.

Paragraph 8.8 mentions possible specific sub-objectives – one being 'Forward looking information, if that information is relevant and relates to the assets and liabilities that existed at the end of, or during, the reporting period'. The AICD does not support the inclusion of this as a subobjective as we are very concerned to ensure that directors liability is not increased through the provision of 'forward looking information'. We note that the business judgement rule in Australia does not apply to information disclosed as part of annual financial reporting.

15. **Do you think the way the IASB 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.**

We agree with stakeholder views that disclosures as currently drafted in IFRS contribute to the disclosure problem. Many disclosures in individual standards are largely prescriptive and contribute to undermining the principles based approach of IFRS.