



ACT
Government

Chief Minister, Treasury and
Economic Development

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

Dear Ms Peach

INVITATION TO COMMENT ITC 35 DISCLOSURE INITIATIVE – PRINCIPLES OF DISCLOSURE

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the Australian Accounting Standards Board (AASB) on its Invitation to Comment (ITC) 35 *Disclosure Initiative – Principles of Disclosure*.

The AASB based this ITC on International Accounting Standards Board (IASB) Discussion Paper DP/2017/1 *Disclosure Initiative – Principles of Disclosure*. HoTARAC is also responding directly to the IASB on that Discussion Paper.

HoTARAC agrees with the IASB's assessment of the disclosure problem and the factors which contribute to that problem. In addition, HoTARAC would not object to the IASB issuing a Standard that permits entities to include information required by Standards outside of their financial statements provided that information is disclosed within their annual reports.

HoTARAC's response to the IASB's fifteen questions and the AASB's four specific matters for comment are set out in the Attachment.

If you have any queries regarding HoTARAC's comments, please contact Martin Smith from NSW Treasury on 02 9228 5158 or by email at martin.smith@treasury.nsw.gov.au.

Yours sincerely

Stephen Miners

ACTING CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

12 September 2017

HOTARAC RESPONSE TO AASB SPECIFIC MATTERS FOR COMMENT

The AASB would particularly value comments on the following:

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.

While HoTARAC is not aware of any regulatory or other issues arising in the Australian environment that may affect the implementation of the IASB's proposals, HoTARAC notes:

- AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and the Uniform Presentation Framework (UPF) impose additional requirements on governments' consolidated financial statements in respect to presentation and disclosures, and
- disclosure objectives of public sector users will be different to the investors, lenders and other creditors identified by the IASB as primary users of financial statements.

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

The IASB's proposals have the potential to improve the usefulness of financial statements by aligning disclosure objectives with detailed reporting requirements.

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

HoTARAC believes that the IASB's proposals will have no negative impact on the Australian 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.

The IASB has outlined two alternative approaches to disclosure objectives:

- Method A - focusing on types of information (paragraph 7.15), and
- Method B - focusing on the entity's activities (paragraph 7.22).

The IASB has noted that it may be costly for entities to implement systems and processes based on Method B (paragraph 7.33(d)). This would only become an issue if the IASB decides to proceed with principles of disclosure based on Method B.

HoTARAC RESPONSE TO IASB QUESTIONS**Question 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 amendment/s to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

- (a) HoTARAC agrees with the IASB (paragraph 1.5) that the ‘disclosure problem’ comprises three main concerns about information disclosed in general purpose financial reports:
 - not enough relevant information,
 - irrelevant information, and
 - ineffective communication of the information provided.

HoTARAC agrees that the main factors contributing to the ‘disclosure problem’ are:

- difficulties in applying judgement (paragraph 1.6),
- a view by some entities, auditors and regulators that financial statements are compliance documents rather than a means to communicate with users (paragraph 1.7),
- lack of guidance (paragraph 1.8),
- lack of clear disclosure objectives in some standards (paragraph 1.8), and
- prescriptive disclosure requirements in some standards (paragraph 1.8).

HoTARAC is not aware of any other factors contributing to the disclosure problem.

- (b) HoTARAC agrees that the IASB should develop general principles of disclosure. Those principles could empower financial statement preparers to perform their work using judgement rather than a checklist approach.

In addition, any work to address the ‘disclosure problem’ must be substantial enough to bring about a paradigm shift in the mindset of preparers, auditors and regulators.

Accordingly, the IASB should also undertake a standards-level review of disclosures.

Question 2

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?

Superannuation note disclosures can be long. In addition, HoTARAC questions whether the risk disclosures required by IFRS 7 *Financial Instruments: Disclosures* need to be so extensive, particularly where non-financial services entities have relatively simple statements of financial position with few derivatives.

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 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?
- (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 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.

- (a) HoTARAC agrees that the IASB should develop principles of effective communication to apply when preparing financial statements. The IASB should develop those principles to underpin all financial statements disclosures and to act as an overriding test about whether to include particular disclosures.
- (b) HoTARAC agrees with the principles of effective communication listed at paragraph 2.6. In addition, HoTARAC agrees with the IASB's paragraph 2.6 observation that 'an entity might need to make a trade-off between some of these principles when preparing its financial statements'.
- (c) HoTARAC considers that the IASB should release principles of effective communication as non-mandatory guidance rather than as a mandatory standard. In reaching this view, HoTARAC agreed with the comment of some IASB Members (paragraph 2.13):

'Some Board members see the principles of effective communication as educational in nature. They observe that the principles would be difficult to enforce and audit, and therefore it would not be appropriate to include them in a Standard.'

Accordingly, as the principles are non-mandatory and over-arching, the IASB could consider including them in the Conceptual Framework, which already includes qualitative characteristics that are balanced in determining financial statement disclosures.

- (d) HoTARAC agrees with the IASB's conclusion (paragraph 2.19) that guidance on the use of formatting in financial statements 'could help to improve the effectiveness of information communicated in the notes'. In addition, HoTARAC agrees with the IASB's conclusion (paragraph 2.23) that formatting guidance 'would be more suitable in non-mandatory guidance than in a general disclosure standard'

HoTARAC considers that if the IASB issues a standard, then it should issue non-mandatory 'implementation guidance that accompany but do not form part of, the general disclosure standard' (paragraph 2.13(a)). HoTARAC considers that this option has two advantages:

- it would give the implementation guidance 'more prominence than a practice statement (paragraph 2.13(b)) or special education material (paragraph 2.13(c)), but
- would keep the implementation guidance 'non-mandatory' permitting preparers to use judgement.

HoTARAC agrees, in principle, with the IASB's proposal to issue guidance 'in the form of illustrative examples' (paragraph 2.13(a)). However, HoTARAC considers that any illustrative examples must target known disclosure problems and may require further IASB consultation with stakeholders.

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?

- HoTARAC agrees with the IASB's proposal to specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows' as users generally understand those statements to be the 'primary financial statements'.
- HoTARAC agrees with the IASB's description of the role of the primary financial statements set out in paragraphs 3.22 to 3.24. That description is consistent with HoTARAC's understanding of the role of the primary financial statements.
- HoTARAC agrees with the IASB's description of the role of notes set out in paragraph 3.28, as well as the examples provided in paragraphs 3.26 and 3.27. That description is consistent with HoTARAC's understanding of the role of notes.
- HoTARAC agrees with the guidance on notes content proposed in paragraphs 7.3 to 7.7 of the *Conceptual Framework* Exposure Draft, as described in paragraph 3.7.

Question 4 - continued

- HoTARAC agrees that the IASB should not use the terms 'present' and 'disclose' to specify whether information must be disclosed in the primary financial statements or the notes. HoTARAC agrees that IFRS Standards should specify the intended location as either 'in the primary financial statements' or 'in the notes'.

In addition, HoTARAC considers that the IASB should replace each reference to 'present' and 'disclose' in current Standards with a reference to either the primary financial statements or the notes as appropriate.

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 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)?

- (a) HoTARAC would not object to the IASB issuing a general disclosure standard containing a principle permitting entities to provide information necessary to comply with IFRS Standards outside financial statements provided the IASB required that such information:
 - meets the requirements in paragraphs 4.9(a)–(c). In particular, HoTARAC agrees that all such information must be provided within an entity's annual report (paragraph 4.9(a)), and
 - is identifiable within the annual report, verifiable (auditable) and traceable.
- (b) HoTARAC has no examples beyond the scenarios included in paragraphs 4.3 and 4.4.

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 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?

HoTARAC considers that the IASB should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS' financial information. Such information may be relevant to meet the needs of users. For example, preparers of Public Sector entity financial statements in Australia already include non-IFRS information related to that Sector within their financial statements. HoTARAC agrees that the IASB should clearly identify such an entity providing information as described in paragraphs 4.38(a)–(c).

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?

HoTARAC considers that the IASB should allow entities to include additional information, but only in the notes. Any additional information should be required to comply with the criteria set out in paragraph 4.38(a)–(c),

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.

- (a) HoTARAC agrees that the IASB should clarify that an entity which presents its statement of financial performance based on the 'nature of expense' method and includes:
- an EBITDA subtotal, and/or
 - an EBIT subtotal
- in accordance with IAS 1 *Presentation of Financial Statements* paragraphs 85 to 85B complies with IFRS.
- (b) HoTARAC considers that the Board should not permit entities to use terms such as 'unusual' and 'infrequently occurring' in their primary financial statements. This would avoid any possibility of entities misapplying or selectively applying these terms. However, the IASB could consider permitting entities to include these or similar terms in the notes.

Question 8 - continued

(c) As noted above, HoTARAC considers that the IASB should prohibit the use of terms such as 'unusual', 'infrequent' or similar in the primary financial statements. However, if the IASB proceeds despite HoTARAC's view, then HoTARAC is not aware of any other issues or requirements beyond those stated in paragraph 5.28 that the IASB should consider when it develops requirements for the presentation of unusual or infrequently occurring items in financial statements.

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?

HoTARAC agrees with the IASB's preliminary view that a general disclosure standard should discuss how performance measures can be fairly presented in financial statements as described in paragraph 5.34. HoTARAC considers that the requirements proposed at 5.34 would permit an entity to present performance measures without departing from or diminishing the importance of IFRS requirements.

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.

Question 10 - continued

- (a) HoTARAC supports 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. HoTARAC considers that such requirements would result in the removal of unnecessary and unhelpful information from accounting policies notes.

In addition, some HoTARAC members suggest that the IASB prohibit the disclosure of Category 3 accounting policies to help drive the 'de-cluttering' of financial statement disclosures.

- (b) HoTARAC considers that the IASB should issue its guidance on the location of accounting policy disclosures as part of a general disclosure standard because:

- the location of such information within financial statements is fundamental to user understanding, and
- even though that information is fundamental to user understanding, the IASB could set out that guidance and the reasons for that guidance in a few short paragraphs.

HoTARAC considers that the IASB should empower entities to determine the best location for their accounting policy disclosures. Accordingly, HoTARAC considers that the IASB should issue non-mandatory guidance or include general principles in the Conceptual Framework on the location of those disclosures rather than a general standard.

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?

HoTARAC agrees that the IASB should develop centralised disclosure objectives for the reasons outlined by the IASB including that:

- as some IFRS Standards do not contain disclosure objectives, it can be difficult to understand the purpose of the disclosure requirements in those Standards and therefore to exercise judgement in deciding what information should be disclosed (paragraph 7.6),
- 'the absence of disclosure objectives, coupled with lists of prescriptively written disclosure requirements encourages entities to apply those disclosure requirements mechanically..... rather than focusing on what information to communicate to users of the financial statements' (paragraph 7.6), and
- disclosure objectives in current IFRS Standards were developed largely in isolation leading to inconsistencies in the wording of objectives and a lack of consideration for the relationships between the disclosure requirements in different standards (paragraph 7.7).

Question 11 - continued

In addition, HoTARAC agrees with the IASB's view that 'centralised disclosure requirements could be used as an underlying basis for developing and organising disclosure objectives and requirements that are better linked to the objectives of financial statements and the role of the notes' (paragraph 7.10).

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.

(a) HoTARAC members support different approaches these are:

- Some members prefer Method A, as:
 - this Method is consistent with the IASB's approach to Standard setting (paragraph 7.16),
 - while feedback to the IASB indicates that the IASB can improve disclosure objectives and requirements, there has been no call for fundamental change (paragraph 7.20(a)),
 - this Method would be unlikely to significantly change the way disclosure requirements are currently developed (paragraph 7.20(e)), and
 - this Method would be unlikely to require entities that are already communicating effectively to make significant changes (paragraph 7.20(e)) whereas Method B may be costly for entities to implement due to the systems and processes required (paragraph 7.33(d)).
- Other HoTARAC members consider that Model B provided superior information to meet user needs.
- Some HoTARAC members recommend the IASB consider a hybrid of Methods A and B based on principles, rather than a "one size fits some" approach.
- Some HoTARAC members would like the IASB to more fully explain the two methods, and particularly Method B, so the advantages and potential impacts can be better understood.

(b) HoTARAC has not considered any method other than Method A and Method B.

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?

Some HoTARAC members consider that the Board should locate all disclosure objectives and requirements within a single Standard for the reasons set out at paragraph 7.39 or, if these are to be non-mandatory principles, as a chapter in the Conceptual Framework. In particular, HoTARAC agrees with the IASB's reasoning at paragraph 7.39(b):

'it would help the [IASB] and its stakeholders to think about disclosure objectives and requirements as a package, in a more unified way, meaning that relationships between different disclosure requirements could be more readily identified and ensuring that disclosure requirements are developed consistently, which might lead to more effective disclosures'.

Other HoTARAC members consider that preparers may find it easier to have the disclosures located within each relevant standard.

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).

- (a) HoTARAC supports the IASB giving further consideration to the NZASB staff approach to disclosure requirements. The NZASB staff proposal is to separate 'summary information' from 'additional information' (if necessary 'additional information' is needed to meet the overall disclosure objective of the Standard). HoTARAC believes that this proposal could increase the use of judgement and reduce checklist style disclosures by making clear that 'additional information' is not needed in all cases.

In addition, HoTARAC supports the NZASB staff proposal to provide an overall disclosure objective (paragraph 8.7) and disclosure examples for individual standards (paragraph 8.10). HoTARAC believes that these proposals have the potential to improve the usefulness of financial statements by better aligning disclosure objectives with detailed reporting requirements.

Question 14 (a) - continued

However, the IASB will only be able to realise that potential if the disclosure objectives are well-written and accepted by users, preparers, auditors and regulators. Accordingly, HoTARAC recommends that the IASB consult widely during the developments of disclosure objectives.

Despite the above, some HoTARAC Members believe that, due to the factors in para 8.26(a), preparers and auditors will still interpret reporting requirements from a 'checklist' perspective rather than exercise judgement. Those HoTARAC Members consider that the IASB should address this by amending current Standards. Specifically, those amendments would clearly state that preparers have a real choice about whether or not to disclose certain information (for example, 'an entity may choose/elect to disclose....').

- (b) As noted above, HoTARAC considers that the NZASB staff proposal has the potential to improve the usefulness of financial statements by better aligning disclosure objectives with detailed reporting requirements.
- (c) For the reasons discussed above, HoTARAC considers that the IASB should consider the NZASB staff approach as part of its Standards-level Review of Disclosures project.

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.

HoTARAC agrees with the IASB's observations at paragraph 8.4 that:

- some standards lack clear disclosure objectives,
- in the absence of clear disclosure objectives, it is difficult for preparers of financial statements to use judgement,
- the language used in some Standards (for example 'shall disclose' and 'at a minimum') give the impression that preparers must include particular information rather than use judgement.

HoTARAC agrees with the observation by some stakeholders that 'specific disclosure requirements might be simpler to use than applying judgement'. However, the objective of financial reporting is not to create simplicity for preparers. Instead, the objective of financial reporting is to provide high quality information to users.

Question 15 - continued

HoTARAC considers that various Standards contain examples of current drafting that may contribute to the disclosure problem. HoTARAC's response below refers to one of those Standards,

IAS 12 *Income Taxes*.

IAS 12's objective is to 'prescribe the accounting treatment for income taxes'. In addition, various IAS 12 disclosure requirements use the word 'shall' see below.

Para-graph	Disclosure
81	'The following shall also be disclosed separately.'
82	'An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition'
82A	'In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.'

These facts combined may give financial statement preparers the impression that they must make all disclosures required by the Standard irrespective of whether users benefit from those disclosures.

General Comment

Paragraph 3.2 references the Conceptual Framework project; specifically the role of financial statements in assessing the stewardship of the entity. Footnote 1 refers to all users as investors and creditors. While HoTARAC agrees investors are primary users, the broader role of financial statements envisioned in the Conceptual Framework project suggests disclosures should also address the needs of those users of the financial statements who are interested in the stewardship of the entity, in addition to investors whose focus is on future cash flows.

