

20 September 2017

Mr Hans Hoogervorst
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IFRS Foundation
30 Cannon Street
London EC4M 6XH
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Submitted to: www.ifrs.org

Dear Hans

DP/2017/1 Disclosure Initiative—Principles of Disclosure

Thank you for the opportunity to comment on DP/2017/1 *Disclosure Initiative—Principles of Disclosure* (the DP). The DP has been exposed in New Zealand and some New Zealand constituents may have made comments directly to you.

We are very supportive of the IASB's focus on the theme of Better Communication and the *Disclosure Initiative*. We believe that there is a need to improve the communication effectiveness of financial statement disclosures, and are therefore supportive of the objective of the *Principles of Disclosure* project.

As an international standard setter, the IASB plays an important role in improving the disclosure effectiveness of financial statements. However, we acknowledge that other financial statement stakeholders also have an important part to play in overcoming the disclosure problem.

Summary of our response

We are broadly supportive of the IASB's preliminary views in the DP. However, there are some aspects of the proposals in sections 4 to 6 with which we disagree, with the key areas summarised below.

Section 4 – Location of information

- We do not agree with the requirement expressed in paragraph 4.9(a) of the DP that limits cross-referencing to other information to within the annual report. In our view, it would be more appropriate to permit cross-referencing more broadly, where IFRS information outside of the financial statements is available on the same terms, at the same time and continues to be available as long as the financial statements.
- We do not agree with the requirements in paragraph 4.38 of the DP for presenting “non-IFRS

information”. We believe that entities should focus on what additional information to include in their financial statements in order to achieve a fair presentation rather than on differentiating between IFRS information and “non-IFRS information”.

Section 5 – Use of performance measures in the financial statements

- We do not agree that the IASB should proceed with proposals to develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items. Rather than focusing on the terms used, for which there could be many alternative terms, we suggest that the IASB establishes requirements for the fair presentation of these items.

Section 6 – Disclosure of accounting policies

- We do not agree with the proposed use of three categories of accounting policies as it would create additional complexity. In our view the disclosure of all material accounting policies should be required, making it unnecessary to distinguish between Category 1 and Category 2 accounting policies.

Our detailed recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter.

New Zealand outreach

We conducted a range of outreach activities, including workshops in several cities across New Zealand. We are grateful for the assistance of the IASB staff in presenting on the DP at those workshops. NZASB staff have collated feedback from our outreach activities and have shared this with IASB staff.

The New Zealand experience

Many New Zealand entities have already taken steps in the last few years to improve the disclosure effectiveness of their financial statements. The improvements have included providing more entity-specific disclosures, avoiding boilerplate language, re-ordering disclosures and removing disclosures considered irrelevant or immaterial. Often entities have worked with their auditors to achieve these improvements in their financial statements.

The New Zealand Financial Markets Authority¹ (FMA) is playing an active role in trying to improve financial statements as a clear and effective reporting and communication tool. The FMA hosted a discussion forum in September 2014 to bring together financial statement stakeholders to understand and discuss the disclosure challenges within the New Zealand environment. The FMA has been vocal in its belief that the disclosure of clear, concise and effective financial information provides investors with access to information that will help them make informed financial decisions.

¹ The FMA is one of three main regulators in New Zealand. The FMA regulates capital markets and financial services in New Zealand.

Digital reporting and interactive financial statements

We believe that the IASB needs to give more consideration to how financial information will be consumed by users in the next decade and beyond. The rise of digital reporting and interactive financial statements presents the IASB with a further opportunity to address the “disclosure problem”. Currently financial statements are mostly thought of as a hard copy or downloadable PDF document prepared for compliance purposes. However, with the increased use of digital reporting financial statements will become much more interactive documents, that will allow for enhanced searchability, enabling analysts to drill down to obtain further information and retail investors to obtain the information they need at a summarised level. At a minimum, we believe that the IASB should seek to further explore/develop disclosure principles for financial statements made available in digital format.

We note other bodies are producing some thought-provoking publications in this area, for example, Accountancy Europe published *The Future of Corporate Reporting – creating the dynamic for change*. We suggest that the IASB draw upon such thought leadership when developing the proposals further.

If you have any queries or require clarification of any matters in this letter, please contact David Bassett (David.Bassett@xrb.govt.nz), Lisa Kelsey (Lisa.Kelsey@xrb.govt.nz) or me.

Yours sincerely



Kimberley Crook
Chair – New Zealand Accounting Standards Board

Appendix to Principles of Disclosure Discussion Paper comment letter to IASB

Section 1—Overview of the “disclosure problem” and the objective of this project

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 amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

Question 1(a)

We agree with the description of the “disclosure problem” and its causes in the DP.

The IASB’s description of the disclosure problem and its causes are largely consistent with the findings from the New Zealand Financial Markets Authority’s (FMA) discussion forum titled “Beyond International Financial Reporting Standards (IFRS): Quality Financial Reporting”. The discussion forum was held in September 2014 and attended by financial reporting preparers, users, standard setters, auditors, lawyers and regulators. The forum aimed to facilitate a clearer understanding of disclosure challenges within the New Zealand environment, and identify ways to improve financial statements so they are a clear and effective reporting and communication tool.

The FMA produced a summary of the main findings from the forum: *Quality Financial Reporting – How to Improve Financial Statements*² (FMA report). These findings included the following.

- (a) Some financial statements contain content that is not relevant or material, potentially obscuring the information that is important.
- (b) Financial statements that are not clear, concise and effective have an adverse impact on the effective communication channels between entities and their users.
- (c) Poor application of the concept of materiality in practice is seen by many as a major cause of disclosure overload.
- (d) The reasons for disclosure overload are linked to the behavioural patterns of financial statement stakeholders (preparers, directors, auditors, standard setters and regulators).

² <https://fma.govt.nz/assets/Reports/141101-Quality-Financial-Reporting-How-To-Improve-Financial-Statements2014.pdf>

Question 1(b)

We agree that the development of disclosure principles in a general disclosure standard would help address the disclosure problem.

In our view, the development of disclosure principles would improve the effectiveness of disclosures for users of financial statements by:

- (a) providing preparers with guidance on how to disclose and communicate information effectively;
- (b) giving preparers confidence to apply judgement in deciding what information to disclose and how to disclose information;
- (c) promoting a change in regulator and auditor behaviour, away from viewing financial statements as a compliance document, by emphasising the use of judgements that preparers need to exercise in disclosing and communicating information effectively; and
- (d) helping the IASB improve disclosure requirements.

Although we consider that (a) and (d) have a role in addressing the disclosure problem, we believe that (b) and (c) may play a greater role in addressing the disclosure problem. In our view behavioural issues in applying judgement play a larger part in contributing to the disclosure problem, compared to a lack of guidance or existing requirements in IFRS® Standards.

This view is consistent with steps taken, over the past couple of years, by many New Zealand entities to improve the disclosure effectiveness of their financial statements. These improvements which included re-ordering disclosures, providing more entity-specific disclosures, avoiding boilerplate language and removing disclosures considered irrelevant or immaterial, were achieved under existing requirements in IFRS Standards.

Consistent with feedback received by the IASB, we believe that behavioural issues extend beyond preparers, and include a number of different stakeholders (including regulators and auditors), who all have a role to play in addressing the disclosure problem. We believe that the development of disclosure principles will play a role in driving a positive shift in stakeholder perceptions of financial statements. Stakeholders that view financial statements as a compliance document, rather than a means of communication, may contribute to the disclosure problem by imposing “limitations” on a preparer’s ability to apply judgement (e.g. the strict use of disclosure checklists by an auditor). A shift in stakeholder perceptions towards viewing financial statements as a means of communication would hopefully help to reduce the extent of those imposed limitations and ultimately increase the confidence of preparers to apply judgement.

Question 2

Sections 2–7 discuss specific disclosure issues that have been identified by the IASB and provide the IASB’s preliminary views on how to address these issues.

Are there any other disclosure issues that the IASB 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?

Materiality

The FMA noted, in its report, *Quality Financial Reporting – How to Improve Financial Statements*³ that materiality is well-established as a concept in relation to recognition and measurement, but is less so in relation to disclosure. We believe that this signals a need for specific guidance on making judgements on materiality in relation to disclosures.

We acknowledge that within the *Disclosure Initiative* there are two other projects, namely the *Definition of Materiality* and *Materiality Practice Statement* projects. These projects will be key in helping support changes in stakeholder behaviour towards applying materiality in relation to disclosures.

Digital reporting

We believe that the IASB needs to give more consideration to how financial information will be accessed by users in the future. The rise of digital reporting and interactive financial statements may present other opportunities to address the “disclosure problem”. Currently financial statements are thought of as a hard copy document or a downloadable PDF. Digital reports will be much more interactive documents, that will allow for enhanced searchability, enabling analysts to drill down to obtain further information and retail investors to obtain the information they need at a summarised level. At a minimum, we believe that the IASB should seek to further explore/develop disclosure principles for financial statements made available in digital format. Also, see the related point below.

CORE & MORE

In 2015, Accountancy Europe (previously Federation of European Accountants) published *The Future of Corporate Reporting – creating the dynamic for change*.⁴ The paper sets out a possible way of presenting and linking information to be reported, through the CORE & MORE concept: a CORE report provides an overview of corporate affairs accompanied by MORE report(s) which provide detailed information complementing the CORE report.

We consider that there is merit in the IASB exploring the development of such a presentation approach to financial reporting. We believe that such an approach could be given life through digital reporting which, through the use of hyperlinks, could enable users to drill-down (access) detailed information contained in the MORE report(s) via the CORE report.

³ See footnote 2.

⁴ <https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper - FutureofCorporateReporting.pdf>

Section 2—Principles of effective communication

Question 3

The IASB'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 IASB 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 IASB 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 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 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.

Question 3(a)

We agree that the IASB should develop principles of effective communication that entities should apply when preparing the financial statements.

Although we believe that the principles are largely common sense, we think that it is beneficial for the IASB to clearly identify and describe communication principles to assist entities when preparing financial statements.

We believe that communication principles will help to improve the communication effectiveness of financial statements by (i) providing preparers with useful guidance on how to communicate effectively; and (ii) encouraging preparers to apply judgement in determining what information to disclose and how to disclose information effectively.

Question 3(b)

We agree with the principles of effective communication listed in paragraph 2.6 of the DP. The principles are broadly consistent with the principles identified by the FMA in its report *Quality Financial Reporting – How to Improve Financial Statements*.⁵

However, we recommend that the IASB explores combining/condensing the seven principles into three or four principles, to make the principles more workable in practice. Our recommendation is

⁵ See footnote 2.

consistent with feedback received during the Asian-Oceanian Standard-Setters Group 2016 Annual conference held in Wellington, New Zealand.

We consider that the relevance of information and concept of materiality play a central role in improving communication effectiveness. We note that *relevance* is a fundamental qualitative characteristic in the IASB's *Conceptual Framework* and that *materiality* is an entity-specific aspect of *relevance*. Although it would be inappropriate for the IASB to consider relevance and materiality as communication principles, we believe that it would be appropriate for the IASB to increase their visibility by including a discussion of *relevance* and *materiality* to accompany the principles of effective communication.

Question 3(c)

We think that principles of effective communication should be issued as non-mandatory guidance. Given the inter-relationship between some of the principles and the potential need for an entity to make a trade-off between some of the principles of effective communication, e.g. entity-specific information vs comparable information, we do not consider that issuing the principles as mandatory requirements would be suitable. This view is further supported by concerns heard from New Zealand constituents regarding potential difficulties in auditing and enforcing the principles, should they be mandatory requirements.

In our view, the principles should be included in guidance that accompanies, but does not form part of, a general disclosure standard, rather than as a practice statement or educational material. This would have the benefits of: (i) having greater visibility than other forms of non-mandatory guidance such as a practice statement or educational material; and (ii) being subject to the IASB's full due process.

Question 3(d)

We support the development of non-mandatory guidance on the use of formatting in the financial statements. We think that such formatting guidance should accompany the principles of effective communication, in the form of illustrative examples or implementation guidance that accompany, but do not form part of, the general disclosure standard.

Whilst the DP acknowledges digital reporting and that much of the proposed guidance on the use of formatting is equally applicable to digital reporting, we believe that the proposed guidance could go further in providing formatting guidance for digital reports, e.g. the use of hyperlinks within a set of financial statements.

Section 3—Roles of the primary financial statements and the notes

Question 4

The IASB'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 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 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 IASB's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

Specify that the “primary financial statements” are the statements of financial position, financial performance, changes in equity and cash flows

Although our preference would be for the IASB and the International Public Sector Accounting Standards Board (IPSASB) to align terms, we do not have concerns with the use of the term “primary financial statements” and note that this term is generally well understood in practice.⁶

In general, we agree with the view that the “primary financial statements” are the statement of financial position, statement(s) of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows. However, we suggest that the IASB acknowledges that there may be cases where other statements will be relevant, e.g. entities reporting under IAS 26 *Accounting and Reporting by Retirement Benefit Plans* could produce a statement of net assets available for benefits and a statement of changes in net assets available for benefits.

Describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24

Role

We agree that a general disclosure standard should describe the roles of the different components of the financial statements and how those roles meet the objective of financial statements – for the reasons described in paragraph 3.21 and 3.25 of the DP. However, we believe that further work is needed to ensure that the description of the role of the primary financial statements and the

⁶ The IPSASB uses the term “face of the financial statements” in its *Conceptual Framework*.

description of the role of the notes together meet the objective of financial statements described in the IASB's *Conceptual Framework Exposure Draft*.

The proposed role of the primary financial statements is inconsistent with the objective of financial statements which refers to "assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources". The IASB's preliminary view is that the statement of cash flows is one of the primary financial statements, yet the proposed description of the role of the primary financial statements does not reflect this.

Implications

We agree with the implications of the role of the primary financial statements described in paragraph 3.24 of the DP.

The IASB's preliminary view in paragraph 3.24(a) of the DP, that information in the "primary financial statements" is more prominent than information in the notes, is consistent with feedback received from New Zealand constituents – which is that many readers pay more attention to the primary financial statements than to the rest of the financial statements.

Paragraph 3.24(e) states that "a decision on whether to present information as a separate line item in the primary financial statements is made after considering the role of the primary financial statements". We suggest that the IASB also acknowledges in paragraph 3.24(e) that materiality plays a role when deciding whether to present information as a separate line item in the primary financial statements.

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

We agree that the role of the notes to the financial statements should be included in a general disclosure standard with further explanatory and supplementary information.

We echo comments made in the EFRAG *Preliminary response to the questions in the IASB Discussion Paper DP/2017/1 Disclosure Initiative – Principles of Disclosure* that the statement of cash flows and the statement of changes in equity are also forms of reconciliation and therefore this cannot be seen as a discriminating factor when describing the role of the notes.

We recommend that the IASB considers amending paragraph 3.28(a) as follows.

The role of the notes is to:

- (a) provide further information necessary to disaggregate, ~~reconcile~~ and explain the items recognised in the primary financial statements; and
- (b) ...

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

We do not have any concerns with the proposed paragraphs 7.3–7.7 of the *Conceptual Framework Exposure Draft* being included in a general disclosure standard.

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. 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”.

We support the IASB’s proposal to specify the intended location if it uses the terms “present” or “disclose”. We believe that specifying the intended location is more important than defining the terms “present” and “disclose”.⁷ We also believe that this will help to address confusion regarding the location of information when “present” and “disclose” are used.

However, we have concerns that more prescriptive wording of “present in the primary financial statements” could have the unintended consequence of being misinterpreted as a requirement that is not subject to materiality. This concern could be addressed by giving greater emphasis to materiality when drafting disclosure requirements, e.g. by including a paragraph in each standard reminding entities to apply materiality; see the “Guidance on the use of judgement” paragraphs in the NZASB staff’s example in section 8 of the DP as a starting point.

Although we do not believe that the IASB should formally prescribe a meaning for “present” and “disclose”, we do think the terms should be used consistently.

⁷ We note that the IPSASB in its Conceptual Framework uses the term “display” for the face of the financial statements and “disclose” for the notes of the financial statements.

Section 4—Location of information

Question 5

The IASB'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 IASB'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)?

Question 5(a)

We agree that a general disclosure standard should include a general principle that an entity can provide information that is necessary to comply with IFRS Standards outside of the financial statements provided certain requirements are met.

Permitting cross-referencing to IFRS information outside the financial statements would help to reduce duplication of information within the annual report, shorten disclosures in the financial statements and highlight relationships between pieces of information.

We note that the International Standards on Auditing recognise that explanatory or descriptive information may be included in the financial statements by cross-reference to information in another document, and that such information will form part of the financial statements.

Criteria for cross-referencing (the requirements in paragraphs 4.9(a)–(c))

We do not agree with the requirement expressed in paragraph 4.9(a) of the DP that limits cross-referencing to other information within the annual report. The IASB needs to consider how information is expected to be consumed in the future. In our view, cross-referencing needs to be permitted on a wider basis than the annual report. Any cross-referencing requirements should be future-proofed to take into account the continued advancements in digital reporting and the rise of interactive reports (where the boundaries of the annual report and financial statements can become unclear). We also note that section 6—*Disclosure of Accounting Policies* of the DP contemplates permitting certain accounting policies to be located on an entity's website.

We believe that it would be more appropriate to broaden the requirement in paragraph 4.9(a) of the DP to permit cross-referencing where IFRS information outside of the financial statements is available on the same terms, at the same time and continues to be available as long as the financial statements.

We partly agree with the requirement expressed in paragraph 4.9(b) of the DP that cross-referencing to IFRS information outside the financial statements should be permitted only if the financial statements remain understandable and the information is faithfully represented.

We believe that this requirement will help address concerns raised that cross-referencing could be overused or misused. However, we do not agree with the requirement that “the location of the information makes the annual report as a whole more understandable”. We consider that the understandability of the annual report as a whole is outside of the IASB’s mandate.

We agree with the requirement expressed in paragraph 4.9(c) of the DP that cross-referenced information needs to be clearly identified and should be incorporated in the financial statements by means of a cross-reference to that information. It is vital that cross-referenced information is required to be clearly identified.

We further recommend that the IASB consider requiring that cross-referenced information outside the financial statements be clearly identified as being audited or not.

Question 5(b)

We have heard that there are situations where entities have provided information required by IFRS 8 *Operating Segments* and IAS 24 *Related Party Disclosures* outside of the financial statements but within the annual report. However, we have not found the use of cross-referencing to IFRS information outside of the financial statements to be extensive in New Zealand.

We have not identified any examples of specific scenarios where we think an entity should be prohibited from providing information necessary to comply with IFRS Standards outside the financial statements, provided such information meets certain requirements, as discussed under question 5(a) above.

We are not aware of any statutory or regulatory requirements in New Zealand that would restrict an entity from providing information necessary to comply with IFRS Standards outside the financial statements.

Question 6

The IASB’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 IASB’s preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

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

We partially agree with the IASB’s preliminary view, in that we agree that a general disclosure standard should not prohibit an entity from including other information in its financial statements, for the reasons discussed below.

In our view, prohibiting “non-IFRS information” from being disclosed in the financial statements could:

- (a) be challenging to operationalise and could result in useful information being omitted because of the potential difficulty in differentiating between IFRS information in Category B and “non-IFRS information” in Category C;
- (b) have an unintended consequence on the ability of entities to assert compliance with IFRS in jurisdictions such as New Zealand that have adopted IFRS Standards, but may also have additional country-specific disclosure requirements, which could be considered “non-IFRS information”; and
- (c) prevent entities from including statutory or regulatory disclosures as part of their audited financial statements.

A general disclosure standard should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c)

We do not agree with the requirements in paragraph 4.38. We believe that entities should focus on what additional information to include in their financial statements in order to achieve a fair presentation rather than on differentiating between IFRS information and “non-IFRS information”. Additionally, we believe the disclosure requirements in paragraph 4.38 have the potential to increase the clutter in the financial statements.

We would prefer that the IASB develops principles around the fair presentation of “additional” information, e.g. any additional information presented or disclosed in the financial statements, beyond the requirement of IFRS Standards, shall not be misleading or biased.

We note the overlap between “non-IFRS information” and performance measures discussed in Section 5—*Use of performance measures in the financial statements*. When drafting a general disclosure standard, we believe it will be important for the IASB to make clear that if information provided also fits the description of a performance measure, any requirements relating to performance measures would also apply.

Question 7
The IASB 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 IASB should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

We do not think the IASB should prohibit the inclusion of any specific types of additional information in the financial statements as this could prevent an entity from telling its story. However, as we suggested above, the IASB should include principles around the fair presentation of such information, e.g. any additional information presented or disclosed in the financial statements, beyond the requirement of IFRS Standards:

- (a) shall not be misleading or biased;

- (b) shall be accompanied by comparative information for all prior periods presented in the financial statements; and
- (c) where such information is inconsistent with IFRS Standards, it shall be accompanied by an explanation of why this information has been included (e.g. to meet regulatory requirements) and, if provided voluntarily, why it provides relevant information about an entity's financial position, financial performance or cash flows.

Section 5—Use of performance measures in the financial statements

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

Question 8(a)

The IASB 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.*

We do not agree that it is necessary for the IASB to clarify when the presentation of EBIT and EBITDA can be considered a fair presentation in accordance with IFRS Standards. We believe the current requirements in paragraph 85A of IAS 1 are sufficient to ensure entities do not provide subtotals that disrupt the analysis of expenses. We would not expect an entity to provide an EBITDA subtotal when an entity uses the function of expense approach.

An entity may disclose EBITDA adjacent to the statement(s) of financial performance when the function of expenses method is used. If an entity did this, we note that it would be subject to the requirements proposed in the DP for the fair presentation of performance measures.

The IASB should 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.

We believe it is entity and industry specific as to what is considered unusual or infrequent and it would be extremely difficult for the IASB to define these terms. We therefore do not agree the IASB should proceed with proposals to develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items. We suggest instead that the IASB develop principles for the fair presentation of these items. We have discussed this further in our response to question 8(c) below.

Question 8(b)

We do not believe that the IASB should prohibit the use of other terms to describe unusual and infrequently occurring items. Rather than focusing on the terms used, for which there could be many alternative terms, we suggest that the IASB establishes requirements for the fair presentation of these items. We have discussed this further in our response to question 8(c) below.

Question 8(c)

We acknowledge that information on unusual or infrequently occurring items is useful to users of financial statements, because it helps them to assess the recurring/sustainable performance and make assessments about the future, provided the items are genuinely unusual or infrequently occurring. We received feedback that sometimes entities adjusted only for those unusual or infrequently occurring items that had a negative effect on performance and did not adjust for those that had a positive effect. Users need insight into why management has made the adjustments – this will allow users to make informed decisions about these adjustments.

We suggest that the IASB, rather than focusing on the terms used, should establish requirements for the fair presentation of these items. These requirements, at a minimum, should require an explanation of why the item is considered unusual or infrequently occurring and require entities to ensure consistency around the use of these terms.

We note that unusual or infrequently occurring items are often used to derive performance measures. Therefore, we think that the fair presentation requirements for the use of unusual or infrequently occurring items should be a subset of the fair presentation requirements for performance measures in section 5 of the DP. This would avoid entities having to make somewhat repetitive disclosures.

Question 9

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

We 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. We note the XRB undertook a survey to better understand how APMs are viewed and whether APMs are effective in meeting the needs of users of financial reports in New Zealand.⁸ Results of the survey were published by the XRB in July 2017, and we have attached to this submission a copy of both the summary of the survey and the full report. The survey supports the views expressed by the IASB in the DP that most users have said that performance measures presented in, or disclosed adjacent to, the primary financial statements, are useful if they are fairly presented.

One of the requirements in paragraph 5.34 of the DP is that a performance measure should be reconciled to the most directly comparable measure specified in IFRS Standards to enable users of financial statements to see how the performance measure has been calculated. However, paragraph 5.34 then goes on to say that if the reconciliation is not possible, the notes must contain an explanation of why not. We do not agree with paragraph 5.34(c)(ii). We think that if the reconciliation cannot be done, then the performance measure should not be presented in the financial statements.

We note that the FMA (NZ Regulator) has recently published updated guidance on disclosing non-GAAP financial information outside of the financial statements.⁹ The principles in the guidance are very similar to those requirements proposed in the DP for the fair presentation of performance measures.

We suggest the IASB considers redrafting the requirement in paragraph 5.34 (c) (i) to require disclosure of the "objective" of the performance measure i.e. how the performance measure assists users in evaluating and understanding the entity's performance for the period.

⁸ <https://www.xrb.govt.nz/dmsdocument/2317>

⁹ <https://fma.govt.nz/assets/Guidance/versions/3406/120901-guidance-note-disclosing-non-gaap-financial-information.2.pdf>

Section 6—Disclosure of accounting policies

Question 10

The IASB'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 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.

Question 10(a)

We partly 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.

We agree that a general disclosure standard should explain the objective of providing accounting policy disclosures, and agree with the objective set-out paragraph 6.16(a) of the DP.

We agree with paragraph 6.16(c) of the DP, that the disclosure of immaterial accounting policies should not be required (but also not prohibited) and that an entity should not allow the disclosure of immaterial accounting policies to obscure material information or to make the financial statements more difficult to understand.

We do not agree with the proposed use of the three categories of accounting policies in paragraph 6.16(b). We believe that the introduction of the three categories would create unnecessary complexity. In our view, the disclosure of all material accounting policies should be required, making it unnecessary to distinguish between Category 1 and Category 2 accounting policies. We recommend that the IASB considers amendments to IAS 1 *Presentation of Financial Statements* to require the disclosure of material accounting policies, as opposed to significant accounting policies. We believe that this would remove confusion regarding the meaning of significant and would place greater emphasis on the application of materiality when making accounting policy disclosures.

Question 10(b)

We do not believe that additional guidance is needed regarding the location of accounting policies. We consider that paragraphs 113–114 of IAS 1 contain sufficient guidance regarding the ordering and grouping of the notes.

113	An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.
114	Examples of systematic ordering or grouping of the notes include: <ul style="list-style-type: none">(a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;(b) grouping together information about items measured similarly such as assets measured at fair value; or(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:<ul style="list-style-type: none">(i) statement of compliance with IFRSs (see paragraph 16);(ii) significant accounting policies applied (see paragraph 117);(i) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and(ii) other disclosures, including:<ul style="list-style-type: none">(1) contingent liabilities (see NZ IAS 37) and unrecognised contractual commitments, and(2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see NZ IFRS 7).

We also do not agree with the IASB's preliminary view that significant judgements and assumptions should be disclosed adjacent to the related accounting policies. We have heard that some users of financial statements prefer information about significant judgements and assumptions to be located in a separate section at the front of the notes. Therefore, we do not think that the IASB should restrict an entity from providing disclosures of significant judgements and assumptions in a format that may better reflect the needs of the users of its financial statements.

Section 7—Centralised disclosure objectives

Question 11

The IASB'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 IASB 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 IASB should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

We agree that the IASB should develop centralised disclosure objectives (for the reasons given by the IASB in paragraph 7.10 of the DP).

Question 12

The IASB 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 IASB. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

Question 12(a)

We do not consider that Method B has been sufficiently developed to allow us to make an informed decision regarding which method we support.

Question 12 (b)

We have not identified any other methods that could be used. We note that Method B would have to be a hybrid of Method A and Method B as information about the basis of preparation of the financial statements is identified as a "type of information" under Method A and centralised disclosure objectives would need to be developed for this type of information even if Method B "entity's activities" is used to develop centralised disclosure objectives.

Question 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?

We acknowledge the advantages of locating disclosure objectives and requirements with the related recognition and measurement requirements; e.g., it provides relevant context for disclosure requirements which can assist the IASB in developing disclosure requirements and preparers in applying judgements around making disclosures.

However, we do not believe that the benefits of locating disclosure objectives and requirements with the related recognition and measurement requirements exceed the benefits of locating all disclosure objectives and requirements in a single IFRS standard.

We believe locating all disclosures in a single IFRS Standard would encourage more discipline in how the IASB sets disclosure requirements, because all disclosure requirements would be considered in relation to each other, instead of the focus being on an individual standard.

We also believe that this approach would be more user-friendly for preparers, reduce duplications and would better highlight the relationships between disclosure requirements. This approach will also help preparers take a more holistic approach to disclosures rather than a piecemeal approach.

We note that if the IASB adopted Method B for developing centralised disclosure objectives it would likely have to locate disclosure objectives and requirements within a single IFRS Standard.

Thinking to the future, the IASB will need to consider how IFRS Standards will be made available and whether they will be accessed in a digital interactive format. Such a format might allow for disclosure requirements to be accessed separately, using filters, from other recognition and measurement requirements. Should IFRS Standards be made available in such a format, the location of where disclosure objectives and requirements are located will become less relevant.

Section 8—New Zealand Accounting Standards Board staff’s 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 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?

Note that the IASB 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 IASB is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

Question 14(a)

Overall, we support the development of a unified and consistent approach, which emphasises the application of judgement, to drafting disclosure requirements in IFRS Standards.

Disclosure objectives

We support the development of disclosure objectives and subobjectives when drafting disclosure requirements in IFRS Standards. The inclusion of objectives and subobjectives which explain why users need particular types of information will:

- (a) help preparers better understand the objective of a disclosure requirement and assist in applying judgement when deciding what information to disclose; and
- (b) impose a greater level of discipline on the IASB when drafting disclosure requirements.

We support having an overall disclosure objective for each standard that is based on the objective of financial statements. In our view, this emphasises the objective of financial reporting and provides a clear link between: (a) the objective of financial reporting; and (b) the subobjectives and the particular set of disclosure requirements in the standard (as the particular set of disclosure requirements should link with the applicable subobjective, and each subobjective should link with the overall objective). This should promote consistency between that overall objective, the subobjectives, the individual disclosure requirements and the objective of financial reporting.

However, it is important that the subobjectives are not drafted in generic terms. By generic terms we mean they should not just be a copy of the objective of financial statements. The subobjectives need to clearly explain why users need particular types of information. NZASB staff have acknowledged the challenges in drafting the subobjectives in the staff examples provided in the DP.

We have received feedback from New Zealand constituents that in some cases the disclosure subobjectives could be improved. Development of the subobjectives will impose a discipline on the standard setter because if the standard setter is not able to articulate why users need particular types of information then you could argue that the disclosure may not be needed.

Tiers of disclosure requirements

We support having two tiers of disclosure requirements. Firstly, the two-tier approach provides a balance between ensuring a level of comparability between entities (through tier 1 disclosure requirements) and providing the flexibility for entities to apply judgement to determine relevant information to disclose (through tier 2 disclosure requirements). Secondly, we believe that the two-tier approach, compared with the current drafting of disclosure requirements, better encourages preparers to exercise judgements about materiality when making disclosures.

We note the following concerns raised by New Zealand constituents with the two-tier approach.

- (a) It may be difficult for the IASB to distinguish between summary and additional information, therefore making the approach difficult to operationalise.
- (b) Some constituents felt that having two tiers of disclosure requirements was unnecessary. They considered that the proper application of materiality to one set of disclosure requirements could result in a similar outcome.
- (c) The two-tier approach requires more time and effort to apply than a more prescriptive disclosure approach.
- (d) The two-tier approach allows entities too much flexibility and will lead to a loss in comparability between entities.

Although we acknowledge these concerns, we are still supportive of the two-tier approach. If the IASB and some constituents are concerned about the extent of judgement preparers would be permitted to exercise with the second tier, an alternative would be to re-frame the two-tier approach with the “CORE & MORE” approach discussed in our response to question 2.

Under a CORE & MORE approach, summary information would be presented in the CORE report and additional information that an entity determines is less relevant to users would be included in the MORE report(s).

Emphasis on need to exercise judgement

We strongly support the inclusion of paragraphs to emphasise the use of judgement. We consider behavioural issues in applying judgement to be a significant contributor to the disclosure problem. We believe that emphasising the use of judgement through the inclusion of such paragraphs will encourage preparers to apply judgement.

Our preference would be for these paragraphs to be included in each standard that contains disclosure requirements, rather than just in a general disclosure standard. Although this will result in repetition we believe that the benefit of greater visibility will exceed the cost of repetition.

Less prescriptive language

We support the use of less prescriptive language when drafting disclosure requirements. We have received feedback from New Zealand constituents that the use of “shall” is interpreted by some stakeholders as implying that materiality does not apply.

We believe that the use of less prescriptive language would help dispel this misunderstanding and lead to fewer irrelevant disclosures being made in the financial statements.

Question 14(b)

As noted in our response in Section 1, we consider that behavioural issues in applying judgement may play a greater role in contributing to the disclosure problem, rather than existing requirements.

However, we think that the development of the NZASB staff’s approach would encourage more effective disclosures as a result of:

- (a) imposing a greater level of discipline on the IASB to ensure each disclosure requirement is linked to a disclosure subobjective. The need to provide clear disclosure subobjectives should focus the IASB’s attention on:
 - (i) the purpose of each disclosure requirement; and
 - (ii) whether disclosure requirements contribute to meeting that purpose; and
- (b) encouraging preparers to apply judgement through the use of less prescriptive wording and the inclusion of paragraphs emphasising the use of judgement.

We also believe that this approach will help drive a positive change in behaviour from wider stakeholders, which will give preparers greater confidence to exercise judgement.

Question 14(c)

We think that the IASB should consider the NZASB staff’s approach in its Standards-level Review of Disclosures project, for the reasons identified in our response to questions 14(a) and (b) above.

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 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 think that the way the IASB currently drafts disclosure requirements in IFRS Standards has contributed to the disclosure problem. As noted by the IASB in the DP and discussed in our response to question 14, we consider the lack of clear disclosure objectives and the use of prescriptive language as factors contributing to the disclosure problem.

Examples of where drafting in Standards could be improved

Examples of prescriptive language can be found throughout IFRS Standards. They include the use of “An entity shall disclose”, “An entity shall disclose, as a minimum”, “The following shall be disclosed” or other similar prescriptive language.

IFRS 12 Disclosure of Interests in Other Entities

We have heard that the inclusion of the word “material” along with the prescriptive wording in the drafting of paragraph 21 of IFRS 12 causes confusion for preparers (see below).

21	An entity shall disclose: (a) for each joint arrangement and associate that is material to the reporting entity: (i)
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Some preparers have interpreted paragraph 21 of IFRS 12 to require that an entity make *all* the disclosures listed, even if the information resulting from an individual disclosure is not material, as long as the joint arrangement or associate is itself material to the reporting entity.

As noted in our response to question 4, we believe that greater emphasis on materiality is needed when drafting disclosure requirements. However, care needs to be taken when doing so. In particular, to avoid similar problems as currently arises with the drafting in IFRS 12, we do not believe that referencing materiality in specific disclosure requirements is helpful. Materiality is a pervasive concept and it confuses preparers if it is explicitly mentioned in some places in a standard but not others. Hence, we recommend providing greater emphasis on materiality in a manner that reinforces materiality as a pervasive concept, e.g. by including a general paragraph in each standard reminding entities to apply materiality or with appropriate cross-references to the relevant parts of IAS 1 (or its replacement).