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

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure.*

We fully support the objectives of the Principles of Disclosure project and the Board's wider Disclosure Initiative. In recent years an ever increasing number of disclosure requirements have been introduced into IFRS on a piecemeal basis as individual projects have been completed. Many people have expressed the view that the notes to the financial statements have as a result become a real burden and do not serve their intended purpose of helping users understand the numbers in the financial statements. Equally, many investors complain that they are being presented with cluttered financial statements in which the truly important information is hard to find.

We therefore welcome the invitation to comment on the Discussion Paper's suggestions for introducing principles to make disclosures in financial statements more effective. Going forward, however, we question whether the introduction of such principles will be sufficient to address the burden of disclosure overload mentioned above. In our response to the Board's Request for Views: 2015 Agenda Consultation, we recommended that the Board should undertake an assessment of the disclosure requirements of existing Standards upon completion of the Conceptual Framework, and the Principles of Disclosure component of the Disclosure Initiative. We continue to urge the Board to undertake such an assessment, which should aim to identify principles and disclosure requirements that are inconsistent with the new Framework and disclosure model, and then work towards eliminating or reducing them. In order to do this, it may be necessary to undertake a more comprehensive Standard by Standard review of disclosure requirements to identify those that are no longer needed or where the benefits from producing the information are outweighed by the associated preparation costs, and we are pleased to see the Board exploring potential ways of how such a review might be undertaken in section 8 of the Discussion Paper.

Our responses to the detailed questions raised are set out in the Appendix.

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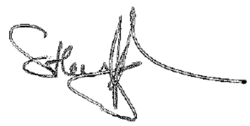
If you have any questions on our response, or wish us to amplify our comments, please contact me at edward.haygarth@gti.gt.com by telephone on + 44 207 391 9556.

Yours sincerely,



Edward Haygarth
Director – Global IFRS Team
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Responses to Invitation to Comment 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?

While we consider it difficult to comprehensively summarise a problem which is affected by a variety of different influences, many of which are behavioural in nature, we broadly agree with the IASB's description of the disclosure problem, namely that there is:

- not enough relevant information
- irrelevant information
- ineffective communication of the information provided.

As noted in our covering letter, an ever increasing number of disclosure requirements have been introduced into IFRS on a piecemeal basis as individual projects have been completed by the IASB. A current lack of guidance on the principles of disclosure coupled with lists of prescriptive disclosure requirements in individual Standards has resulted in many people expressing the view that the notes to the financial statements have become a real burden. In relation to this last point, it will be important for the IASB to recognise that not every entity is a large multinational entity and that accordingly the resources available for the preparation of financial statements will be correspondingly less. While it may be argued that this is a problem that can be dealt with by local law, such a solution reduces comparability.

(b) Do you agree that the development of disclosure principles in a general disclosure standard (ie either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

We agree that a problem exists and that developing disclosure principles would help address the problem. Having said that however, we feel that doing this alone will not solve the problem given what are often deep-set behavioural roots which lie behind it. Instead we feel that a continuing drive for better education for all parties will also be needed for the disclosure burden to be meaningfully reduced. In recent years, we have been encouraged by seeing a number of regulators adopt less of a checklist mentality when dealing with disclosure requirements. For the disclosure burden to be meaningfully reduced however, we feel that a continuing drive for better education for all parties will be needed. Otherwise the problems described in paragraphs 1.7 and 1.8 of the Discussion Paper are likely to persist.

We also believe that there is a need for a comprehensive Standard by Standard review of disclosure requirements and are pleased to see that the feedback from the Discussion Paper will be used to inform such a project. In our view, one of the main reasons behind the current level of dissatisfaction with the disclosure requirements in the IASB's Standards is the fact that they have been largely developed on a piecemeal basis without taking an overall perspective. This is a problem which has been compounded by the tendency to include long lists of disclosure requirements in individual Standards. Again we note that smaller entities will often not have the same level of resources to devote to the preparation of their financial statements as say a multi-national entity, yet (in the absence of intervention at local level) the same disclosures will apply. This lack of resources may well be a contributory factor to the adoption of a checklist approach as described in paragraph 1.7 of the Discussion Paper.

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?

We think the issues identified by the Board are broadly appropriate at this stage in time. We do believe however that technology will have an impact on the way that companies present financial statements in the future. While we do not think this should affect the current project, we believe it would be in the Board's interests to undertake a project on this specific topic in the future. Otherwise there is a danger that companies' practices will develop by themselves and the Board may find it difficult to influence developments once this has happened.

We also believe that there should be a more robust discussion about the boundaries of the financial statements. While the Discussion Paper touches upon issues relating to what information should be provided in the financial statements and what information should be provided in other forms of reporting, we feel that the significance of this issue warrants a more comprehensive consideration of this issue.

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?

Yes, we believe that the Board should develop principles of effective communication that entities should apply when preparing the financial statements. We believe this would assist preparers in applying judgement when making their disclosures, so helping them to communicate more effectively.

(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?

We agree with the principles outlined in paragraph 2.6. We consider the logic behind them to be sound. We also welcome the acknowledgement that an entity may need to make a trade-off between some of the principles when preparing its financial statements.

(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?

We believe that the principles of effective communication should be prescribed in a general disclosure standard. We believe that were they to be presented as non-mandatory, entities would be likely to ignore them particularly as many entities perceive regulators as taking a checklist approach to disclosure requirements.

(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?

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

We do not think that non-mandatory guidance on the use of formatting in the financial statements should be developed as to do so would risk stifling innovation. We believe that it will be better to leave this area to the market instead; good disclosure being likely to be rewarded by the market, all other things being equal. We therefore think that inclusion of the principle set out in paragraph 2.6(d) of the Discussion Paper should be sufficient.

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?

We support using a consistent term to describe the statements listed in paragraph 3.3(a) of the Discussion Paper and calling that term the 'primary financial statements'. From our experience within our network, that term is generally well understood despite the fact that it is not currently used in the Board's standards. We also support the inclusion of the statement of cash flows as part of the primary financial statements.

More generally we believe that the proposals in this area of the Discussion Paper will improve financial reporting by providing additional guidance on the roles of the primary financial statements and the notes, so helping to clarify the boundaries between them.

In relation to the distinction between 'present' and 'disclose', we believe it would be useful to formally distinguish between them. We recognise however that the two terms are not always used consistently within existing standards, and that the differences between them for translation purposes are quite subtle. On balance, we therefore support the Board's preliminary view 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. We agree that going forward it will be sensible to try to use the terms consistently in future standards, thereby reducing confusion and paving the way for a more comprehensive review of their existing use at some stage in the future.

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?

There were mixed views among our network on this question, probably reflecting different practices that exist around the world with some countries being flexible on providing IFRS compliant information outside the financial statements while others are not.

In many countries, providing information that is necessary to comply with IFRS Standards outside financial statements is seen as a practical solution in situations where local regulatory requirements duplicate information that is required for IFRS compliance. Common examples of IFRS information being presented outside of the financial statements include the provision of management remuneration information required by IAS 24 'Related Party Disclosures' in a remuneration report, and financial instrument disclosures required by IFRS 7 'Financial Instruments: Disclosures' in a risk report.

In other countries, notably in North America, there has however traditionally been resistance to presenting GAAP information outside of the financial statements, with the financial statements being viewed as more of a standalone document.

In view of these jurisdictional differences (and what are often legislative requirements behind them), we believe that it is preferable to concentrate on developing a principle as opposed to including specific requirements in standards. The challenge for the Board however will be to define a principle for presenting information needed for IFRS compliance outside of the financial statements in such a way as to not alienate the support for use of IFRS in those countries that have traditionally been against the practice while at the same time not stifling innovation in other countries.

In order to succeed in this challenge, we believe that it will be necessary to develop a robust definition of the annual report. It will equally be important to give consideration as to how potential developments in technology might affect how an entity presents that annual report in order to future proof the definition.

In relation to the proposals in the Discussion Paper, we do not believe it is appropriate to refer to 'an annual reporting package' as described in the recent 'Improvements to IFRS 8 Operating Segments' Exposure Draft, as we find the description of that term too broad to be suitable. In particular, we have reservations over the references to 'one or more documents' and to their being 'published at approximately the same time as the entity's annual financial statements'. We believe instead that the annual report should be defined in terms of a single document as opposed to a single reporting package.

In terms of framing a principle for presenting information needed for IFRS compliance outside of the financial statements in such a way as to accommodate those countries seeking relief from disclosure overload as a result of duplicated information while not alienating other countries, we suggest this could be done by allowing such presentation where information is required by local legislation to be included in a separate section of the annual report. This would have the benefit of allowing for interaction with local legislation without needing to know the details of that legislation.

(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)?

As discussed above, we think that where information is required by local legislation to be included in a separate section of the annual report, that would be a suitable situation to permit information needed to comply with IFRS standards outside the financial statements. This could provide a way of framing a general principle which would not be open to abuse. As detailed in our answer to part (a), it would be necessary to define the annual report in order for this to be a viable solution.

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?

Again there were different views in different areas of our network. As the Board is aware, including non-IFRS information reduces comparability as entities devise their own individual ways of calculating or composing such information. Inclusion of non-IFRS information can also obscure IFRS information and confuse the reader, a problem which can be compounded where it is not clear what information has and has not been audited. There were therefore a number of voices within our network who were opposed to any inclusion of non-IFRS information in the financial statements.

Others however observed that the widespread use of alternative performance measures within financial statements strongly suggests that many entities are experiencing challenges in communicating their financial performance to users solely on the basis of the existing performance reporting model.

On balance then, we agree that a general disclosure standard should not prohibit an entity from including information in its financial statements that is identified as non-IFRS information (provided that it is not misleading or detrimental to the understandability of the financial statements), and that such a standard should require the entity to identify clearly such information as not being prepared in accordance with IFRS and, if applicable, as unaudited.

However, we note that the disclosure requirements in paragraph 4.38 are proposed to apply to Category C information only. Paragraph 4.37 states that the Board has previously observed that it might be difficult to determine whether some information falls within Category B or Category C, and that it would not be operational to require an entity to identify all of its Category C information. It is not clear how this conclusion is consistent with the proposed disclosure requirements in 4.38 applying only to Category C.

We agree that non-IFRS information should be useful and comply with the qualitative characteristics of financial information in order for its inclusion in the financial statements to be appropriate. However, we have yet to be persuaded that disclosing a list of this information and providing an explanation in the financial statements of why this is the case for each item of non-IFRS information is helpful to users.

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?

As alluded to in our response to question 6, we believe additional information which is misleading or detrimental to the understandability of the financial statements should be prohibited.

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?

We set out our comments under the following sub-headings:

Presentation of EBITDA

We do not agree with the Board's preliminary views on the use of EBITDA. Paragraph 5.21 of the Discussion Paper states "… presenting EBITDA as a subtotal in the statement(s) of financial performance is unlikely to achieve a fair presentation if an entity presents an analysis of expenses on the basis of their function…"

Whilst we agree it would be difficult to present a subtotal of EBITDA in a statement of financial performance prepared on the basis of an analysis of expenses by function, we believe that entities can present EBITDA as additional information. In fact, we believe many entities regularly present such additional information on the basis that their opinion is that investors are interested in this number.

We do not believe it was the Board's intention to prohibit the disclosure of additional information if that information is useful to investors. Therefore, if the Board continues this concept through into an ED and ultimately a Standard, they should describe this prohibition carefully so as not to prevent entities from providing disclosures which investors find useful.

Presentation of EBIT

We agree with the Board's preliminary views about the presentation of EBIT. If investors are truly to be able to benefit from the presentation of EBIT then, in our view, there needs to be more consistency about the derivation of this figure. At present however, significant differences exist over what in practice is included and excluded from EBIT. For example:

- some entities exclude all interest income and costs when deriving EBIT whilst others include certain interest. An example of this would be net interest cost on a defined benefit liability, with this sometimes being included in interest and sometimes as an operating cost
- movements in fair values of long-term financial items. The fair value movement of long-term financial items contains both an interest element and other fair value adjustments. Some entities split the fair value movement between interest cost and other fair value movements whilst others show a net fair value movement
- treatment of capitalised interest costs subsequently expensed. Where costs are capitalised, for example in long-term construction contracts, diversity exists in terms of where those costs are subsequently presented in the income statement when the asset is recognised in the income statement. Some entities present them in cost of sales while others present them within interest cost.

Unusual or infrequently occurring items

We agree that it would be appropriate to encourage greater consistency in the presentation and derivation of unusual and infrequently occurring items. However, we have not formed a final view on whether the Board should achieve this by:

- developing a definition of unusual or infrequently occurring items; or
- requiring entities to disclose their accounting policy for additional line items, eg exceptional; unusual; one-off; infrequently etc. This could be supplemented by requiring entities to disclose why each material item included in this additional line meets their definition.

The former would enable greater consistency to be achieved relatively quickly, however it would potentially stifle innovation in this area. It also suffers from the fact that in spite of any definition, the information provided is still unlikely to be comparable. The latter has an added benefit in that market participants would have additional contextual information about management and the culture of an organisation. We believe this additional contextual information would be valuable to investors and are therefore tentatively supportive of such an approach.

(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?

Our views on this are similar to those expressed above concerning the pros and cons of including definitions of unusual and infrequently occurring items. Prohibiting these would drive greater consistency but might limit the ability of investors to obtain contextual information about the culture of an organisation. On balance we feel that attempting to define or prohibit the use of particular terms such as 'non-recurring' is liable to just add to the confusion in this area, and that it would be more productive to focus efforts on improving disclosure of information about why items labelled unusual or infrequently occurring are described as such.

(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.

Rather than attempting to prohibit entities from referring to unusual or infrequently occurring items in the statement of financial performance, the Board may wish to instead explore approaches under which management is required to disclose the period they consider to be infrequent and the reasons for selecting that period.

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?

We agree with the Board's preliminary view.

The use of performance measures in IFRS financial statements is widespread yet there is a lack of guidance over their use. As a result local regulators or standard setters have often stepped in to fill this gap by issuing their own guidance or requirements. We therefore believe that it would be helpful for a general disclosure standard to describe how performance measures can be fairly presented in financial statements.

In relation to the tentative criteria the Board has developed to govern the use of performance measures, set out in paragraph 5.34 of the Discussion Paper, we consider these to be broadly appropriate.

We would however recommend that the guidance also addresses situations where management remove or include a new performance measure. We believe that it would be useful for the Board to require entities to disclose the reason why the old performance measure is no longer relevant or the new performance measure is more relevant. Similarly, where adjustment is made to previously reported performance measures, then we believe entities should be required to provide the reasons why the adjustment results in more relevant information.

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?

We believe that the inclusion of requirements in a general disclosure standard as described would certainly help entities in deciding what policies to disclose and where. We question though whether the categorisation of accounting policies into three categories will really lead entities to take a fresh look at their disclosures and reorganise the sequence and location of information in the notes. Many entities already include too much information in their accounting policies in order to satisfy what they perceive to be the expectations of regulators and auditors, and we are not convinced that this will go far towards solving this problem. We believe it will be more important to emphasise that only those policies needed for an understanding of the financial statements need be given.

Having made these general comments, we agree that entities should be required to disclose accounting policies:

- where individual standards offer a choice between alternative accounting policies
- where an entity makes significant judgments and/or assumptions in applying the accounting policy
- not specifically required by IFRS but which the entity has developed in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- that have changed since the last reporting period.

We also believe that if none of the items above apply then an entity should not need to produce an accounting policy which merely replicates measurement, recognition, or presentation requirements that are already set out clearly by individual standards, even where a material transaction, item or event of the entity is affected by them. In this sense, we find the Board's preliminary view that disclosure of category 2 accounting policies is necessary because the primary users of financial statements are not expected to be IFRS experts unconvincing in view of the assumption in the Conceptual Framework that users are people who have a reasonable knowledge of business and economic activities and who review and analyse information diligently.

To conclude, in our view the objective of any disclosure guidance should be to facilitate the presentation of the most relevant accounting policies as noted above and to reduce the clutter of information in the notes to the financial statements. In looking to meet this objective, we wonder whether it might be possible to combine categories 1 and 2 to some extent.

(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.

In our view, the Board should not be over prescriptive about the location of an entity's accounting policies. While we support the publication of a general disclosure standard, we believe the wording adopted in this area will need to be accordingly flexible. By doing so, the Board will allow entities to determine the disclosures that best meet users' needs and also provide room for companies to continue to innovate in their financial statements as developments in digital reporting occur.

The Board's suggestions of either organising or locating accounting policies all in a single note or with the information to which it relates (eg investment property) should go some way towards creating this flexibility. Allowing entities the discretion to include accounting policies alongside the detailed information to which it relates will improve the effectiveness and understandability of the financial statements in some situations.

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?

We agree that the Board should develop centralised disclosure objectives. As noted in our covering letter, the problem of disclosure overload has worsened in recent years as an ever increasing number of disclosure requirements have been introduced into IFRS on a piecemeal basis as individual projects have been completed. Developing centralised disclosure objectives should promote consistency between the disclosure requirements of individual standards and go some way towards mitigating this problem.

We have also been concerned over a lack of due process over disclosure setting in the sense that this is rarely an area of detailed discussion in Exposure Drafts or Bases for Conclusions. The development of centralised disclosure objectives should again help by providing an appropriate reference point.

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?

We support Method A, which focusses on information types, as the preferred method to develop centralised disclosure objectives.

The thoughts articulated in the Discussion Paper provide a comprehensive overview of arguments for and against each of two methods, and it is evident that both methods have their own merits. Overall however we find the arguments for method A more persuasive. We say this for the following reasons:

- the approach of Method A is consistent with most of the disclosure requirements as they are today and therefore would require significantly less implementation efforts compared with Method B, perhaps the most important factor of all
- it would result in significantly fewer changes in the notes, instead providing a meaningful supplement to the existing disclosures in the notes of IFRS financial statements.

As a result, we believe Method A will have a greater level of acceptance from both preparers and users of IFRS financial statements, as significantly less implementation effort has to be spent and the approach is more intuitive to people who are acquainted with the current form of IFRS financial statements.

Lastly, we do not believe that the benefits of Method B's cash-flow oriented approach would outweigh the additional implementation efforts and the "cultural adaptation processes" for most users and preparers of IFRS financial statements. In our view the argument that method B is more in line with the way entities think about their activities centres more on a controlling than on an accounting perspective.

The Board itself notes that a combination of both methods can be useful. We agree to a certain degree although we believe that one approach should be the primary basis for developing centralised disclosure principles. It could however make sense to refer to business processes and cash flows in setting out some of the disclosure principles. We believe that the Board should consider making reference to Method B on a case by case basis when developing the overall centralised disclosure principles under Method A.

(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.

We do not consider any other method to provide a more meaningful basis for the development of centralised disclosure principles. Instead, we believe the Board should continue its work in this area based on the information-type based approach provided by method A.

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?

We do not believe the Board should locate all disclosure objectives and requirements in IFRS Standards within a single standard, or set of Standards, for disclosures. Rather we believe a general disclosure standard should concentrate on matters such as setting out a set of general disclosure objectives, the principles of effective communication, etc.

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)?

We think the NZASB staff's approach is a sensible approach which should be considered as one possible approach to dealing with the disclosure problem that has arisen. In particular, we like its focus on an overall disclosure objective and also the use of disclosure sub-objectives. We also welcome the use of less prescriptive wording, for example phrases such as "an entity shall consider…". While the Board's 2014 amendment to IAS 1 specified that an entity need not provide a specific disclosure required by an IFRS Standard if the information resulting from that disclosure is not material, we suspect that many preparers may not be aware of that amendment or simply have not changed their practices as a result of its publication. Building in less prescriptive wording to the Standards themselves may then be beneficial.

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

The NZASB's suggested approach has merit and appears like it could potentially encourage more effective disclosures. In particular, we believe the NZASB's 'two-tier' approach offers a balance between a framework that offers a level of comparability and flexibility and one which allows for judgment to be exercised over the level of detail to be provided.

We note however that such an approach is unlikely to by itself provide a panacea to the disclosure problem which is multi-faceted and rooted in part in behavioural attitudes of various different parties. The interaction between tier 2 disclosures (which appear micro-based) and the IASB's (more macro-based) definition of materiality is also something which could be developed further.

(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?

We believe the NZASB staff's approach is certainly one approach that could be considered when the Board approaches its Standards-level Review of Disclosures project.

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).

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.

As noted in our covering letter, we are aware that many people believe that the notes to the financial statements have become a real burden in recent years as an ever increasing number of disclosure requirements have been introduced into IFRS on a piecemeal basis as individual projects have been completed.

To an extent the problem of disclosure overload may be partly attributable to the way the Board drafts IFRS Standards although we believe there are other factors at play, particularly behavioural ones on the part of preparers and regulators. Focussing specifically on the Board's role however, we regard the problem as stemming from the Board's tendency to use prescriptive wording and to include long lists of disclosure requirements. Standards such as IFRS 12 'Disclosure of Interests in Other Entities' and IFRS 15 'Revenue from Contracts with Customers' are examples where long lists of disclosure requirements contribute to a checklist mentality and disclosure overload on a cumulative basis. While the logic behind the individual disclosures is sound, we believe there should be more emphasis on relating these back to the overall requirement and not creating a list designed to cover every eventuality.

We therefore believe the Board should undertake a Standard by Standard assessment of the disclosure requirements of existing Standards and are encouraged that the feedback from the Discussion Paper will be used to inform such a project. In terms of undertaking this project, the Board could consider factors such as:

- the needs of smaller entities compared to multinational entities
- how information produced by existing disclosures is currently being used
- whether different disclosures are used by different investors (or other stakeholders) to obtain essentially the same information, and whether there are ways of reconciling this to allow the disclosures to be consolidated.