



# Disclosure Initiative: Principles of Disclosure

**Presentation and Disclosure WG**

**2017.9.24.**

※ Presentation and Disclosure WG members: Korea (Lead), Hong Kong, Indonesia, Japan, Kazakhstan, New Zealand, Saudi Arabia and Singapore

# 1. Purpose of This Session

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- Share preliminary comments of AOSSG Presentation and Disclosure Working Group for the Discussion Paper (DP) on *Principles of Disclosure published by the IASB*
  - ✓ Comment deadline is 2 October 2017
- The preliminary comments include ones from AOSSG Islamic finance working group

## 2. Disclosure Problem and Cause of Disclosure Problem

### Discussion Paper

#### *Disclosure Problem (par.1.5 of the DP)*

- Not enough relevant information
- Too much irrelevant information
- Poor communication of information

#### *Cause of Disclosure Problem (par.1.6~1.8 of the DP)*

- Difficulties of applying judgement
- Time pressures to prepare the F/S
- Regarding the F/S as compliance document
- Applying IFRS as checklist for disclosures
- Lack of guidance on the content and structure of the F/S (including notes)
- Absence of clear disclosure objectives
- Long lists of prescriptive disclosure requirements

## 2. Disclosure Problem and Cause of Disclosure Problem

### Preliminary comments

- Generally agree with the identified disclosure problems and the cause thereof
- Behavioural issues need to be considered to address the disclosure problems
- Note entity's operational perspective:
  - ✓ Entities face challenges of internal communication, such as difficulty of communication between divisions and difficulty in obtaining an approval from CEO in order to provide additional line items in the financial statements
  - ✓ These challenges are one of the reasons for entities applying the checklist approach
- Disclosure problems can be better addressed by considering digital reporting, interactive financial statements and 'Core & More' concept

# 3. Principles of Effective Communication

## Discussion Paper

### *Principles of effective communication (par.2.6 of the DP)*

- ① Entity-specific information
- ② Simply and directly described
- ③ Organised in a way that highlights important matters
- ④ Linked as necessary to other information
- ⑤ Not duplicated information
- ⑥ Disclosed in a way that optimises comparability
- ⑦ Use of appropriate format for the type of information

# 3. Principles of Effective Communication

## Preliminary comments

- Generally agree with the principles
- Combine seven principles into three or four principles to make the principles more workable in practice
- Consider relevance and materiality as communication principles
- Consider entity's internal communication problem between accounting division and IR division which contacts with primary users without sufficient accounting knowledge
- Expressed mixed view about whether the principles should be prescribed in a general disclosure standard or issued as non-mandatory guidance
- Generally agree with developing non-mandatory guidance on the use of formatting in the financial statements

# 4. Roles of the Primary Financial Statements and the Notes

## Discussion Paper

### ***Primary Financial Statements (par.3.3(a) and 3.19 of the DP)***

- ① Statement of financial position
- ② Statement of profit or loss and other comprehensive income
- ③ Statement of changes in equity
- ④ Statement of cash flows

\* Notes are not part of the primary F/S

### ***Role of the Primary Financial Statements (par.3.22 of the DP)***

- Providing a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses that is useful for obtaining key information, making basic comparisons and identifying areas of particular interest for which users expect to find additional information in the notes

### ***Role of the Notes (par.3.28 of the DP)***

- Providing further information necessary to explain the items recognised in the primary financial statements
- Supplementing the primary financial statements

# 4. Roles of the Primary Financial Statements and the Notes

## Preliminary comments

- Generally agree with the role of the primary financial statements with some suggestions:
  - ✓ Include 'cash flows' in the role, because statement of cash flows is part of the primary financial statements
  - ✓ Focus more on providing information of major line items rather than a summary of entity's recognised assets, liabilities, equity, income and expenses because users might misunderstand such information as a summary of financial information in the annual report
- Generally agree with the role of the notes



# 5. Location of Information

## Discussion Paper

***Disclosing IFRS information outside the financial statements is permitted if the following requirements are met for that information (par.4.9 of the DP) :***

- Make the annual report as a whole more understandable, the financial statements remain understandable and the information is faithfully represented;
- The information is clearly identified and is incorporated in the financial statements by including a cross-reference in the financial statements to the information; and
- The information is disclosed in the annual report

***If non-IFRS information is included in the financial statements the following should be disclosed (par.4.38 of the DP) :***

- Clearly identify that information as not being prepared in accordance with IFRS and unaudited;
- Disclose a list of the information in the financial statements, together with the unreserved statement of compliance required by IAS 1; and
- Explain why the information is useful and has been included in the financial statements

# 5. Location of Information

## Preliminary comments

### *Disclosing IFRS information outside the financial statements*

- Disagree with the proposal to cross-reference only to the annual report because there is diversity across jurisdiction about the content of, and how to report in, the annual report; therefore cross-reference needs to be permitted on a wider basis considering digital reporting and interactive reports
- Opine that addressing the understandability of annual report as a whole is outside of the IASB's mandate

### *Including non-IFRS information in the financial statements*

- Generally disagree with the proposal
- Non-IFRS information does not need to be included in the financial statements because users refer to information in the annual report, IR report, etc. when making decision.
- A member mentioned that Including non-IFRS information in the financial statements by using cross-reference is impossible because the timing of issuing an annual report which includes issued financial statements is later than the timing of issuing the financial statements
- Impairs the credibility of financial statements because an entity tends to include favorable information rather than unfavorable information in the financial statements
- Suggested that the IASB develop principles of fair presentation of “additional” information

# 5. Location of Information

## ✳ Preliminary comments from AOSSG Islamic Finance WG

### *Providing information identified as non-IFRS within the financial statements*

- Strongly agree with allowing entity to include non-IFRS information in its financial statements if such an inclusion is necessary to enhance users' understandability of the information
- General disclosure standard should retain the principle of 17 in IAS 1:

In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity: (a)...(b)...(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

### *Providing information that is inconsistent with IFRS*

- It is important to clearly define what constitutes information that is inconsistent with IFRS, and to clarify whether the definition applies to quantitative information (concerning recognition and measurement aspects of IFRS) or qualitative information (disclosure aspects of IFRS) or both

### *The proposed approach to disclosure additional information*

- Disagree with the proposal set out in par.4.38 of the DP
- Suggested that additional information provided in accordance with the requirements of IAS 1 need not be identified by entity in this way

# 6. Use of Performance Measures in the Financial Statements

## Discussion Paper

### ***Depiction of non-recurring, unusual or infrequently occurring items (par.5.23~5.25 of the DP)***

- Require a separate presentation of a material event or transaction that is unusual or occur infrequently and disclosure of its financial effects
- *Infrequently occurring*: not reasonably expected to recur in the foreseeable future
- *Unusual*: highly abnormal and only incidentally related to the ordinary and typical activities of an entity

### ***Presentation of EBIT and EBITDA (par.5.21 of the DP)***

- If the subtotals are presented in accordance with IAS 1.85-85B, it should provide a fair presentation

### ***General requirements for all performance measures in the financial statements (par.5.34 of the DP)***

- Displayed with equal or less prominence than subtotals and totals in the IFRS F/S
- Reconciled to the most directly comparable measures specified in IFRS
- Accompanied by an explanation of why it is relevant and adjusted
- Neutral, free of error and clearly labeled
- Accompanied by comparatives and consistently classified, measured and presented
- Presented clearly whether the measure forms part of the F/S or has been audited

# 6. Use of Performance Measures in the Financial Statements

## Preliminary comments

### *Depiction of non-recurring, unusual or infrequently occurring items*

- Disagree with the proposal because it is very difficult to define and audit these items
- Suggest developing fair presentation requirements for the use of these items

### *Presentation of EBIT and EBITDA*

- Disagree with the proposal
- One member viewed that current requirements in IAS 1 are sufficient to ensure entity does not provide subtotals that disrupt the analysis of expenses
- One member mentioned that approximately 2 % of listed companies disclose EBIT in the notes in the financial statements as a trigger of default in debt covenants other than performance measure

### *General requirements for all performance measures in the financial statements*

- Generally agree with the proposal

# 7. Disclosure of accounting policies

## Discussion Paper

*(par.6.16 of the DP)*

Three categories of accounting policies		
Category 1	Category 2	Category 3
<ul style="list-style-type: none"> <li>• Have changed during the periods</li> <li>• Selected from alternatives</li> <li>• Developed in accordance with IAS 8</li> <li>• Required significant judgement, assumptions or estimates</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting policies other than category 1</li> <li>• Related to material items because of the amounts and natures of the items</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting policies other than category 1 and 2</li> </ul>
→ Necessary to understand the F/S		→ Unnecessary to understand the F/S
→ <b>Disclosure is necessary</b>		→ <b>Disclosure is unnecessary</b>

### ***Location of accounting policies: considering following locations (par.6.22 of the DP)***

- (Alternative 1) All together in a single note disclosure
- (Alternative 2) individually, with each accounting policy disclosed in the same note as the information to which it relates to
- (Alternative 3) combination of the above two

# 7. Disclosure of accounting policies

## Preliminary comments

- Generally agree with the proposal; however there are some concerns and suggestions:
  - ✓ The use of the three categories would create unnecessary complexity and thus a member suggested amending IAS 1 to require the disclosure of *material* accounting policies, as opposed to *significant* accounting policies
  - ✓ One member suggested that category 1 accounting policies are located in the frontal part of the notes; category 2 accounting policies are located using the Alternative 2 as in the DP; and common accounting policies that relates to all entities should not be included in the notes
- Expressed mixed views about developing guidance on the location of accounting policy disclosures
  - ✓ One member agreed with developing the guidance as non-mandatory guidance in the form of illustrative examples or implementation guidance;
  - ✓ Meanwhile, another member thought that the guidance is not needed because current IAS 1 requirements contain sufficient guidance regarding the ordering and grouping of the notes

# 8. Centralised Disclosure Objectives

## Discussion Paper (Table 7.1 of the DP)

### Developing centralised disclosure objectives

	Method A	Method B
Basis for developing “centralised disclosure objectives”	Different types of information disclosed in the notes	Information about an entity’s activities to better focus on usefulness for users
Basis for developing “disclosure requirement”	Standards-level disclosure objectives	Centralised disclosure objectives  * Do not develop standards-level disclosure objectives

\* Hybrid of methods A and B would be possible

## Preliminary comments

- Expressed mixed views about the method of developing centralised disclosure objectives
  - ✓ One member thought that Method B has not been sufficiently developed
  - ✓ One member preferred a hybrid of Method A and B
- Generally agree with locating all disclosure objectives and requirements in IFRS standards within a single Standard; and one member thought that ‘set of Standards’ method also should be allowed if necessary, such as IFRS 12 *Disclosure of Interests in Other Entities*



## 9. Issues Regarding Islamic Finance

- Islamic financial institutions are normally required to disclose additional information in the financial statements to explain;
  - ✓ Features of Shariah contracts and related accounting policies;
  - ✓ Disaggregation of balances into types of Shariah contracts; and
  - ✓ Nature of finance income earned and finance cost incurred during the financial year
- Seek comments from P&D WG members for the questions asked by the Islamic Finance WG

**Q1**

***Disclosure of “non-IFRS” information (Category B in par.4.33 of the DP)***

- In your jurisdiction, are there regulatory requirements for an entity to disclose information from an Islamic financial reporting perspective that may be “non-IFRS” information?
- If so, please provide an example(s) of such disclosures.

**Q2**

***Disclosure of information that is inconsistent with the IFRS Standards (Category C in par.4.33 of the DP)***

- Have you encountered a situation where an entity disclosed information from an Islamic financial reporting perspective that may have been inconsistent with IFRS?
- If so, in what way might the disclosure of information have been inconsistent with IFRS?
- For example, was the information based on recognition and measurement requirements different from IFRS, or was the disclosure not required by IFRS?

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**Thank you**