Meeting with Practitioners on 1 August 2017
IASB DP/2017/1 Disclosure Initiative – Principles of Disclosure

Present: Gary Stevenson, RSM
Eros Lau, Deloitte
Joe Ng, Ernst & Young
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Apologies: Dorothy Leung (PwC), Stephen Taylor (Deloitte)

Overall comments

- One practitioner commented that the DP does not contain any revolutionary ideas. It re-packages current best practices for disclosure into principles. Furthermore, it lacks forward looking mindset, thereby missing an opportunity to address possible future trending developments. For example, what could financial statements look like in the future, 10 years from now?
- A few practitioners commented that the separate projects within the Better Communication umbrella are disjointed. It is important to understand the linkage between separate projects and how these projects work together or complement one another. The DP also lacks a conceptual basis underlying the rationale for the disclosure requirements/principles.

The Disclosure Problem

- A few practitioners commented that other disclosure problems include: the relevance of disclosures when financial statements are often issued much later than the balance sheet date; financial statements not disclosing significant changes in the company; overly complex disclosure requirements.
- A few practitioners commented that if the disclosure problems are behavioral, it cannot be fixed with principles. Instead, it requires education and a mindset change, i.e. stronger corporate governance.
- A few practitioners commented that principles should be user driven. Otherwise it does not close the gap between what users want and current disclosures. However, the IASB needs to first understand what users want.

- Overall, most practitioners are not against developing principles—but note that principles alone will not solve the behavior problems. Therefore, adopting measures to change behavior are also necessary.

Principles of effective communication

- In addition to the seven principles, two practitioners consider that it is important to disclose timely information in the financial statements. "Timely" refers to the time taken to gather information for disclosure and the consideration of whether the information is useful to the users of financial statements when eventually presented (e.g. some entities will make financial statements available almost 9 months after balance date).
- Most practitioners generally agree that there will be a trade-off between some of the principles, and that preparers will have to apply judgement in order to decide which principles are more important based on the circumstances.
- A few practitioners commented that instead of making the principles mandatory (i.e. putting them into a standard), it would be better to educate preparers through guidance and examples to illustrate how to apply the principles.
- Most practitioners generally think that preparers should apply judgement to decide, based on circumstances and users' needs, which format is appropriate to use when presenting information in the financial statements. Therefore, there is no need to develop guidance on using formatting or to restrict which format to use.

Roles of primary financial statements and notes

- Most practitioners generally think that the DP does not propose any new ideas/changes to the roles of primary financial statements and the notes. Therefore, specifying their roles does not help preparers in deciding where to present the information in the financial statements.
- Most practitioners think that the current standards do not clearly distinguish between 'present' and 'disclose'.
- Most practitioners also think that auditors and regulators prefer to have checklists of what should be disclosed and where it should be disclosed. This is because it is safer. They think that preparers generally do not care, unless it is related to a required disclosure of explaining the fundamental root cause of why a specific loss was recognized during the year.

Location of information

- Most practitioners generally think that the principles on the location of information are nothing new.

- A practitioner has seen companies in the commodities and banking industries disclose non-IFRS information in the financial statements. Another practitioner has seen companies disclose non-IFRS information in the supplementary information at the back of the financial statements (which is not covered by the auditor's report).
- From an audit perspective, some practitioners think that non-IFRS information which is not extracted from the financial systems of the company should be prohibited from the financial statements. However, one practitioner disagreed, and commented that perhaps the auditing standards / auditing profession needs to evolve and align with users needs.
- Overall, most Panel members thought that the IASB should not prohibit an entity from disclosing any specific types of information. Instead they think that it should be left for preparers to judge, based on materiality, what should be disclosed, and whether the disclosure of that information is misleading to users.

Use of performance measures

- A few practitioners commented that some clients disclose performance measures either on the face of the primary financial statements or in the notes. Common performance measures include EBITDA, EBIT and operating profit. Telecommunication companies normally disclose average revenue per user.
- Most practitioners think that the market, in general, is already following the general requirements as suggested in the DP (which are similar to the guidance previously issued by various regulators) when disclosing performance measures in the financial statements and such requirements work well. Therefore, they consider that there is no need to set additional requirements for the presentation of EBITDA and EBIT.
- Most practitioners do not think that there is a need for developing requirements for the presentation of 'unusual or infrequently occurring item' based on the following reasons:
  - Preparers should apply the judgement as to what to disclose, where to disclose it, and how to describe such items appropriately based on the entities' circumstances.
  - The terms 'unusual' and 'infrequently occurring' are different, and as such should not be presented together as one line item. For example, an infrequently occurring transaction could be impairment loss (which is not unusual as it relates to an entities operating activity), whereas the nature of unusual transactions could be those which are uncontrollable outside the

operations of the entity, for example, a fire.

- The current requirement under IAS 1 which allows entities to add line items and use appropriate descriptions already works well.

Disclosure of accounting policies

- Most practitioners agree that category 1 accounting policies are important and should be disclosed in the notes to the financial statements. Significant judgments and assumptions used in applying the accounting policy should be disclosed together with that particular accounting policy.
- For the rest of the accounting policies, they could be disclosed at the later part of the financial statements or as an appendix to the financial statements, in order not to obscure material information.
- However, entities should try to explain how they apply the accounting policy rather than just summarising the requirements in the standards.
- One practitioner suggests that for category 2 and 3 accounting policies, entities could state in the financial statements that they follow the requirements in the standard instead of repeating the requirements in the standards. Entities should also consider disclosing new standards in a more prominent place in the financial statements, e.g. under the 'new and significant events and transactions' section.

Drafting disclosure requirements

- A few practitioners commented that there cannot be 'one-size fits all' disclosure objectives in today's world. Furthermore, drafting disclosures based on method A or B would presume what users find useful.
- One practitioner thinks that hybrid method of combining methods A and B (the information focus and activity focus) would be more helpful. This is because activity focus may not be meaningful across all entities. For example, activity in relation to PPE may not be as applicable or meaningful to banks as compared to manufacturing company. Hence, mandating one method over another may cause excess information to be presented, and would appear to have defeated the objective of effective communication.
- This practitioner would interpret hybrid to be that companies have the flexibility in applying either Method A or B in drafting disclosures as they see fit.