Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Sent electronically through the IASB Website (www.ifrs.org)

17 October 2017

Mr Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

IASB Discussion Paper DP/2017/1
Disclosure Initiative—Principles of Disclosure

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our views on this Discussion Paper.

The HKICPA supports the IASB initiative and effort to improve the content and structure of financial reporting. However, the HKICPA observes that the preliminary ideas in the DP can be deduced from existing IFRS standards and pronouncements from regulators, as reflected by the best practices of some listed companies with strong corporate governance. At this early stage of the standard-setting process, the HKICPA would like to see more forward-looking ideas in the DP as it notes the information needs of users today have evolved and advanced from what traditional financial reporting provides. In addition, traditional financial statements do not provide sufficient linkage between the line items and a company's business model and strategy. The HKICPA is aware that the shortfall of traditional financial reports could have played a role in the demand for wider corporate reporting initiatives, which appear to provide the value-added information that investors are seeking.

Accordingly, the HKICPA recommends that the IASB considers:

a) how the principles of recognition, measurement and disclosures under the wider corporate reporting frameworks differ from the IFRS framework; how useful are the additional information provided under the wider corporate reporting frameworks; and whether an entity could disclose those additional information that are not currently required by IFRS Standards using the principles underpinning the IFRS Conceptual Framework; and
b) how the Board would respond to reporting trends given the advancements of technology and the impacts on the IASB's project on digital reporting.

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The HKICPA also recommends making it clearer in its Better Communication theme, the IASB's role in the future of corporate reporting and how the Board plans to fulfil that role alongside the bodies that are promulgating the wider corporate reporting frameworks. The IASB's preliminary views in this DP, particularly on the location of information, could be seen as extending the boundary of traditional financial reporting, but it is not clear whether this is the IASB's intention. Notwithstanding its intention, the IASB should also clarify how the Board views the interaction between the financial report and the other reports/digital platforms outside the financial report.

The HKICPA is aware that this DP represents one project under the IASB's Better Communication theme. The HKICPA acknowledges the benefits of making gradual improvements on this subject, albeit through separate projects. Nevertheless, the HKICPA thinks that if the wider initiative is conducted in piecemeal, stakeholders may miss the big picture of how these projects interact with one another and what constitutes better communication. For example, while the DP was considered, the materiality practice statement was still underway and a further consultation on 'materiality' was in the pipeline—our stakeholders had difficulties piecing together the materiality concept with the principles outlined in the DP. The HKICPA strongly recommends that the IASB takes a step back and considers how stakeholders should holistically assess, integrate and implement the ideas underlying the Better Communication theme.

Finally, the HKICPA thinks that behavioral causes of the disclosure problem will be difficult to tackle solely through this DP or any other written publication. The HKICPA considers that behavioral changes require a paradigm shift in the mindset of all parties; including preparers, auditors and regulators, in order for them to embrace their roles in enhancing the relevance and usefulness of financial information. This requires a significant educational and coordination effort by the IASB, IAASB, IAESB and national standard-setters—the HKICPA would be prepared to assist/support this in any way it can.

Our responses to the questions raised in DP/2017/1 are explained in more detail in the Appendix.

If you have any questions regarding the matters raised in this letter, please contact me, Eky Liu (eky@hkicpa.org.hk) or Kam Leung (kamleung@hkicpa.org.hk), Associate Directors of the Standard Setting Department.

Sincerely,

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Christina Ng
Director, Standard Setting Department

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Work undertaken by HKICPA in forming its views

The Hong Kong Institute of Certified Public Accountants:

(i) issued an Invitation to Comment on DP/2017/1 on 3 April 2017 to our members and other stakeholders;

(ii) held a roundtable discussion for preparers on 31 August 2017, comprising representatives of listed companies from various industries including utilities, shipping, pharmaceuticals, banking and insurance, and conglomerates. IASB staff Mariela Isern and Arjuna Dangalla joined through video conference;

(iii) held a roundtable discussion for investors and analysts on 5 September 2017, comprising representatives from asset managers, research houses, and investment and securities firms. IASB head of investor engagement, Fred Nieto, facilitated the roundtable discussion in person and IASB staff Arjuna Dangalla joined through tele-conference;

(iv) met with representatives from the audit, the securities and the listing regulatory bodies of Hong Kong;

(v) sought input from its Disclosure Initiative Advisory Panel and Small-medium Practitioners Technical Issues Working Group comprising technical and industry experts and auditors from large as well as small-medium accounting firms (collectively, Practitioners);

(vi) developed its views through its Financial Reporting Standards Committee, having reflected on its stakeholder views. The Committee comprises academics, preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

This submission outlines HKICPA's views as well as most of our stakeholders' comments on DP/2017/1.

Detailed comments on IASB DP/2017/1

The Disclosure Problem

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

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?

Stakeholder views

1. Our stakeholders generally agree with the disclosure problem, its root causes and other specific disclosure issues identified in the DP.
2. Some preparers commented that accountants are accustomed to, or comfortable with, reporting information using checklists. This could be attributed from the accounting education system or the 'cost efficient' mindset that underpins accountants in general. In these preparers' experience, the tone from the top is necessary to involve change in the reporting mindset and behavior. Without the direction and support of senior management, preparers of financial reports would not have the mandate to convey the 'real' economic story of the company.
3. Preparers also note that the disclosure problem could also be a product of financial reporting and prudential regulator requirements who themselves may be applying the 'checklist' mindset. These preparers have been requested by regulators to provide particular information to maintain 'reporting consistency' in the industry, even though it may not be relevant or significant to the company. This issue is amplified for multinational companies that operate in different jurisdictions.
4. Small-medium preparers and practitioners commented that current disclosure requirements are too complex and are too costly to handle. Therefore, preparers resort to preparing generic and boilerplate disclosures. They recommend that the IASB assess the costs and benefits to small-medium entities when setting disclosure requirements.
5. Our auditor regulator commented that there are many Hong Kong preparers that are large family-owned businesses with operations in mainland China. For many of these businesses, the preparers and their auditors do not necessarily understand the underlying spirit of the standards and the objective of the corresponding disclosures.
6. In general, all stakeholders consider that issuance of any further requirements or written publication alone will not solve the disclosure problem. Instead, education is crucial. Our auditor regulator recommends that preparer education forums would be useful, where accountants in businesses that are role models in high quality reporting can share their experience and methods for applying the disclosure requirements.

HKICPA analysis and recommendation

7. The HKICPA agrees with the three main concerns about disclosures in financial statements and the root causes of the problem. The HKICPA thinks that it will be difficult to tackle the behavioral issues solely through this DP or any other written publication.
8. The HKICPA thinks that behavioral changes require a paradigm shift in the mindset of all parties, including preparers, auditors and regulators in order for them to embrace their roles in enhancing the relevance and usefulness of financial information. This requires significant education and coordination effort, at least by the IASB, IAASB, IAESB and national standard-setters. The HKICPA would be prepared to assist/support in any way it can.

Principles of effective communication

Question 3

The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance. The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22.

(a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not?
(b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why?
(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance?
(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not? If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.

Stakeholder views

9. Our stakeholders generally support the seven principles of disclosure outlined in the DP, and support incorporating them in a general disclosure standard. To enhance the effectiveness of the seven principles, they think that the IASB should specify how to apply the concept of materiality to the principles; and how the principles should interact with each other and apply to individual standard requirements.
10. Preparers generally think that the principles of 'clear and simple' and 'free from unnecessary duplication' are considered the most important. A few preparers commented that the principle of 'entity-specific' is difficult to apply in practice, as there is the risk of disclosing too much entity-specific information to competitors. Preparers also think it is important that the volume of information disclosed should be controlled.
11. On top of the seven principles, a few practitioners consider that it is important to disclose 'timely' information. That is, information should be prepared and available soon after the reporting date to be more relevant and useful to users. Nevertheless, these practitioners also acknowledge that the preparation of financial statements and, hence the availability of 'timely' information, is often restricted by the filing requirements of local laws and regulations.
12. A few practitioners commented that there is a tension between the principles 'entity-specific' and 'comparable', and urge the IASB to incorporate guidance on how to prioritise the principles in the event of conflict between the principles.
13. Investors and analysts think that 'transparency', in terms of having a meaningful breakdown, is very important and should be an additional principle. Most investors welcomed the principle 'linked' as it enhances integration of information but one investor cautioned that inappropriate use of cross-referencing could make

the financial report difficult to read, particularly in a digital format. Investors and analysts think that using graphs/charts as a visual aid to help identify the trend of recurring earnings is helpful.

14. Our auditor regulator thinks that information that is 'relevant to the entity' should be another principle of effective communication. That is, entities should consider whether a particular information is relevant to the entity in the context of its operating activities. For example, unless a significant event has occurred, the property, plant and equipment of a bank may not be as relevant to a bank's operating activities as compared to a manufacturing company. The financial instruments and corresponding financial risk management of a bank is more relevant in the context of a bank's operating activities. Therefore, entities should prioritise and provide more information pertaining to items that are more relevant to the entity.
15. Our listing regulator commented that a few listed entities have adopted wider corporate reporting frameworks and noted that the use of these frameworks have driven better quality reporting. However, the regulator thinks that information that require more judgement should be reported in a standardised and neutral manner across all entities, for example, information on intangible assets and impairment.
16. In relation to the principle of 'appropriate format', our securities regulator thinks that if an entity chooses to use graphs or charts, they should also disclose the actual numbers to ensure the numerical precision is not lost.

HKICPA analysis and recommendation

17. HKICPA observes that the preliminary ideas in the DP already reflect the best practices of some listed companies with strong corporate governance. At this early stage of the standard-setting process, the HKICPA would like to see more forward-looking ideas in the DP as it notes that the information needs of users today have evolved and advanced from what traditional financial reporting provides[1]. For example, internally-generated brands or human talent pools, which could be key contributors to the long-term value creation of a modern business, are not recognised in financial statements but are deemed as valuable information to the investor community. As businesses grow more complex and multi-faceted, it is also pertinent for users to understand what the line items in traditional financial statements mean, in the larger context of a company's business model and strategy—however, there appears to be insufficient linkage between the two.
18. Wider corporate reporting frameworks seem to fill this gap in IFRS reports, as it seeks to explain the long-term value creation ability of a business. The issue with wider corporate reporting frameworks is there is no one global leader driving the initiative.
19. The HKICPA recommends that the IASB considers:
    a) as a first step, how the principles of recognition, measurement and disclosures under the wider corporate reporting frameworks differ from the IFRS framework; how useful are the additional information provided under the wider corporate

1 https://blogs.cfainstitute.org/marketintegrity/2017/03/28/implications-of-the-widening-spectrum-of-useful-corporate-information/

reporting frameworks; and whether an entity could disclose those additional information that are not currently required by IFRS Standards using the principles underpinning the IFRS Conceptual Framework; and

b) how the Board would respond to reporting trends given the advancements of technology and the impacts on the IASB's project on digital reporting.

20. The IASB should also make it clearer in its Better Communication theme, the Board's role in the future corporate reporting and how the Board plans to fulfil that role alongside the bodies that are promulgating the wider corporate reporting frameworks. The IASB's preliminary views in this DP, particularly on the location of information, could be seen as extending the boundary of traditional financial reporting, but it is not clear whether this is the IASB's intention. Notwithstanding its intention, the IASB should also clarify how the Board views the interaction between the financial report and the other reports/digital platforms outside the financial report.
21. With regards to the seven proposed principles of effective communication outlined in the DP, the HKICPA agrees with them. The HKICPA also thinks that the IASB can consider adding the principles of 'relevance', 'transparency' and 'timely' as suggested by our stakeholders.
22. Notwithstanding our support, the HKICPA notes that there is a conflict between some of the principles: for example, information that are entity-specific versus comparable. Whilst the DP acknowledges that in some instances, a trade-off may be required in applying these principles, the HKICPA thinks that the IASB should provide illustrations/guidelines on how the principles should be prioritised to achieve the goal of better communication. The HKICPA recommends that the IASB seeks further feedback on how users would like to see these principles prioritised in the financial statements.
23. The existing requirements about materiality and qualitative characteristics of useful financial information in the Conceptual Framework are also important considerations of effective communication. However, the DP does not explain how these concepts, together with the proposed seven principles, interact with each other and how they apply in practice. The IASB should elaborate on the interaction between the materiality and qualitative characteristics concepts and the principles of effective communication.
24. The HKICPA sees limited benefit in developing non-mandatory guidance to enhance effective communication because, based on our observations in Hong Kong, not many preparers use non-mandatory guidance in any way. As such, the HKICPA thinks that the principles in the DP should be mandatory.

Role of primary financial statements and notes

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?

Stakeholder views

25. Our stakeholders 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.
26. Our stakeholders do not think that the meaning or the intended location of 'present' and 'disclose' should be specified. Doing so would make disclosures overly prescriptive. Companies should be allowed to apply professional judgement to determine where to present/disclose the information according to the entities' circumstances.

HKICPA analysis and recommendation

27. The HKICPA agrees with the IASB's preliminary views regarding the roles of primary financial statements and the notes. HKICPA considers they are consistent with current practice.
28. The HKICPA also agrees with the IASB's preliminary views not to prescribe the meaning of 'present' and 'disclose'. The HKICPA thinks that specifying the intended location of 'present' and 'disclose' would not solve the disclosure problem and would make disclosures overly perspective—similar to a checklist template.

Location of information: IFRS information outside the financial statements

Question 5

The Board's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c).

(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

(b) Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards

outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)–(c)?

Stakeholder views

29. Most of our stakeholders welcome the principles regarding location of information outside the financial statements as the principles can encourage entities to holistically integrate information in the annual report.
30. A few small-medium practitioners think that placing IFRS compliant information outside financial statements may increase the auditor's responsibilities and potential liabilities.
31. Our auditor regulator would prefer to prohibit companies from disclosing IFRS information outside the financial statements in order to prevent any confusion about what is audited financial information versus management commentary and performance indicators. The regulator thinks that an annual report with excessive cross-references might be unhelpful to users and investors, and questions the benefits of cross-referencing.
32. Investors and analysts generally find such presentation helpful in understanding the financial statements as they highlight relationships between pieces of information within the annual reports.

HKICPA analysis and recommendation

33. The HKICPA welcomes the principles discussed in the DP on disclosing IFRS information outside the financial statements. The HKICPA notes that some listed entities in Hong Kong are already applying some of the principles suggested in the DP (e.g. the use of cross-reference). If cross-referencing is applied appropriately, the HKICPA believes that annual reports including financial reports would be useful and the issue with clutter in financial reports would be addressed.

Location of information: non-IFRS information inside the financial statements

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?

Stakeholder views

34. Preparers welcome the principles regarding location of information inside the financial statements. Some preparers think that this would enable them to better represent their company's story. Currently, they think that financial statements only provide some information about the company whereas the other parts of the annual report provide more insight into the company's story.
35. Preparers commented that it is difficult for them to better communicate with its

investors when non-IFRS information are not permitted inside financial reports. In most cases, auditors do not allow non-IFRS information to be presented inside financial statements.

36. Investors and analysts generally welcome the idea of having guidelines for the location of information. They also welcome some form of auditor assurance that the non-IFRS information, if disclosed inside financial reports, are not misleading.
37. Some investors and analysts consider that financial reports should provide information that help users of financial reports better understand why that financial information is important to them. However, financial reports to date only provide the 'end results', and not the drivers of those end results which they consider could be useful information.
38. A small number of investors and analysts think that non-IFRS information should only be allowed in an MD&A or a Chairman's message so that such information is not represented as audited information.
39. From an audit perspective, some practitioners think that non-IFRS information that are not extracted from a company's financial systems should be prohibited from the financial statements, as auditors may not be able to provide assurance over such information. Additionally, including non-IFRS information in the financial statements would increase an auditor's responsibilities and potential liabilities.
40. However, a few practitioners disagree, and commented that the auditing standards / auditing profession need to evolve and align with users needs.
41. Our listing regulator observes that top listed Hong Kong companies have voluntarily provided independent limited assurance on their Environmental, Social and Governance reports, in accordance with International Standards on Assurance Engagements 3000 and 3410. Therefore, it is possible for auditors to provide some level of assurance on non-IFRS information.
42. Our securities regulator thinks that the IASB should clarify the definition of non-IFRS information. The regulator thinks that non-IFRS information which are prepared under a basis inconsistent with or not acceptable by IFRS, should not be allowed in the financial statements. Our auditor regulator prefers non-IFRS information to be disclosed separately from financial statements.

HKICPA analysis and recommendation

43. The HKICPA is aware that investors and analysts in Hong Kong generally find it useful having non-IFRS information disclosed within financial statements. The HKICPA therefore thinks that when done appropriately, disclosing non-IFRS information within financial statements can provide relevant and faithfully represented information about a company.
44. The HKICPA thinks that the principles outlined in the DP are appropriate starting points for incorporating non-IFRS information in financial statements. However, a recent CFA Institute survey found that 80.8% of its respondents in general are expecting some form of assurance over the non-IFRS information that are presented within financial statements[2].

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2 Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting, November 2016

45. The HKICPA is also aware of auditors' concerns on potentially extending the auditor's responsibilities and liabilities beyond non-IFRS information. The HKICPA therefore considers that support from the audit profession is necessary in order to enhance the usefulness and reliability of non-IFRS information. There may be a need to consider the role of auditors, and the audit and assurance standard requirements for non-IFRS information. In this regard, the HKICPA strongly recommends that the IASB collaborates with the IAASB to assess the audit implications of disclosing non-IFRS information within financial statements.

Location of information: prohibiting additional information

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?

Stakeholder views

46. Our stakeholders think that the IASB should not prohibit entities from disclosing specific types of information in the financial statements. They think that the current requirements under IAS 1 *Presentation of Financial Statements* is sufficient, and that preparers should judge, based on materiality, whether such information is relevant and faithfully representative.

HKICPA analysis and recommendation

47. The HKICPA agrees with its stakeholder views as prohibiting entities from disclosing a specific non-IFRS information may limit their ability to provide information that is relevant to users.

Use of performance measures

Question 8

The Board's preliminary views are that it should:

- clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:
- the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and
- the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.
- develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?
(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

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

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?

Stakeholder views

(a) Fair presentation of performance measures

48. Our stakeholders agree with the general requirements for the fair presentation of performance measures discussed in paragraph 5.34 of the DP.
49. Consistent with the views expressed in question 6 about non-IFRS information, investors and analysts generally consider that there should be some oversight by auditors on quantitative performance measures so that information is not misleading or unreliable.

(b) Presentation of EBITDA and EBIT

50. Most practitioners think that, in general, entities are already following the general requirements as suggested in the DP when disclosing performance measures like EBITDA and EBIT in financial statements. They consider that these performance measures are usually reconcilable to IFRS information and therefore the proposed principles of fair presentation and current requirements in IAS 1 are sufficient. There is no need to prescribe additional requirements.
51. Preparers from banks commented that these two performance measures are not applicable to banks, and therefore, suggest that they should be treated as 'non-IFRS information'.

(c) Separate presentation of unusual or infrequently occurring items

52. Our stakeholders, generally, consider that there is no need for the separate presentation of unusual or infrequently occurring items because:
    a) they are concerned that the definition of 'unusual or infrequently occurring' creates opportunities for disclosures that are not neutral and may lead to unintended consequences – similar to the inappropriate presentation of 'extraordinary items' in the past.
    b) they consider that it is important that financial information is disclosed in a transparent way instead of defining a separate category of line items. For example, there should be sufficient disaggregation of items provided in the

financial statements so that users can better understand the type of transactions performed by the entity for their own analysis.

c) some practitioners think that the current requirements under IAS 1, which allow entities to add additional line items and use appropriate descriptions, already provide the flexibility for entities to explain the elements of financial performance according to the entities' circumstances.

HKICPA analysis and recommendation

53. The HKICPA broadly agrees with the general requirements for fair presentation of all performance measures outlined in the DP. The HKICPA observes that listed entities in Hong Kong that disclose performance measures in financial statements are already following these principles.

54. Of all the principles, the HKICPA thinks that 'neutrality' is the most subjective. An entity's interpretation of 'neutral' may be different from its investor's interpretation of 'neutral'. The HKICPA therefore thinks that 'neutrality' must be accompanied by the principles 'transparent' and 'understandable' as well as qualitative explanation for why management considers adjustments are necessary to achieve 'neutrality'.

55. The HKICPA thinks that EBITDA/EBIT should already reflect a fair presentation as long as entities follow the general requirements for fair presentation of performance measures. Therefore, the HKICPA does not consider there is a need to prescribe additional requirements for the presentation of EBITDA and EBIT as discussed in the DP.

56. The HKICPA disagrees with the IASB's proposals on developing definitions of, and requirements for, separate presentation of 'unusual or infrequently occurring items' in the statement(s) of financial performance for the following reasons:

    a) Paragraphs 85 to 86 of IAS 1, which permits entities to add additional line items and use appropriate labels or descriptions, already exist.

    b) To achieve entity-specific disclosures, entities should be allowed to apply judgement as to what to disclose, where to disclose it, and how to describe such item appropriately based on the entities' circumstances.

    c) It may be subjective as to what items are considered 'unusual' or 'infrequently occurring'. Instead, the HKICPA thinks that it would be more useful if entities were required to clearly describe the nature of the transactions/events. This would enable investors to form their own view and make an assessment on whether it should be included in forecasting future financial performance and cash flows.

    d) It would be confusing to encourage entities to separately present 'unusual or infrequently occurring items' when IAS 1 prohibits the presentation of 'extraordinary' items. The HKICPA does not see how the two terms 'unusual' and 'extraordinary' are different in practice.

Disclosure of accounting policies

Question 10

The Board's preliminary views are that:

- a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and
- the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):
    - ➢ the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and
    - ➢ the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.

(a) Do you agree with the Board's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?

(b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?

If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

Stakeholder views

57. Preparers generally agree with the three categories of accounting policies and consider that they are helpful in disclosing accounting policies. Preparers also agree that significant accounting policies should not be obscured by those that are insignificant. However, they consider that entities should have the flexibility to choose the location of accounting policies.

58. Practitioners consider that only category 1 accounting policies should be required to be disclosed, and that the significant judgements and assumptions used in the policy should also be disclosed alongside that particular policy. They suggest that accounting policies not in category 1 should be disclosed in a separate part of the financial report, e.g. as an appendix to the report.

59. Investors and analysts consider that accounting policies are useful, should be disclosed in financial reports, and should be cross-referenced or clearly linked to the relevant notes.

60. Our securities regulator considers that all accounting policies that are applicable to an entity should be required to be disclosed as potential investors and new users may not be familiar with the entity.

61. Our auditor regulator considers that it is important to clarify who are the primary users of the financial statements in order to determine what and how accounting policies should be disclosed. Also on the assumption that users of financial statements should have a reasonable degree of accounting knowledge, financial

analysis experience and a willingness to study the information with reasonable diligence, there is no need to disclose all the accounting policies in the financial statements. Only policies that are relevant to the understanding of the entity and its business/transactions could be required.

62. In addition, all stakeholders think that entities should also clearly explain how accounting policies were applied in practice, instead of simply summarising the requirements in the standards.

HKICPA analysis and recommendation

63. The HKICPA considers that the categorisation of accounting policies, as discussed in the DP, is useful. However, the categories do not address the underlying issue noted by our stakeholders—that is, preparers tend to disclose generic or 'boilerplate' accounting policies.
64. The HKICPA thinks that even if entities were to disclose significant accounting policies in a prominent place in financial reports, they would not be useful if the policies are only a summary of the requirements in the standards. The HKICPA thinks that educating preparers on 'how' to draft accounting policies is more important. In connection with the principles of effective communication (discussed earlier), the HKICPA considers that the IASB should explain how to apply those principles when disclosing accounting policies.

Centralised disclosure objective

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?

Stakeholders' views and HKICPA analysis and recommendation

65. The HKICPA and our stakeholders support the development of centralised disclosure objectives as they help entities exercise judgement about what specific information to communicate to users of financial statements.

Methods in developing centralised disclosures objectives

Question 12

The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralized disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards:

- focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or
- focusing on information about an entity's activities to better reflect how users

commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B).

(a) Which of these methods do you support, and why?
(b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section.

Methods A and B are in the early stages of development and have not been discussed in detail by the Board. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

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?

Stakeholders' views

66. Most preparers and small-medium practitioners prefer method A as it is more consistent with the current disclosure approach. They are concerned that dramatic changes in the method of disclosure may lead to unintended consequences. These preparers prefer accessing applicable disclosure objectives in the respective standards instead of accessing all disclosure objectives within a single standard.
67. One preparer considers that method B can better link the disclosures to the operating activities of an entity and therefore, help preparers assess whether a particular disclosure is relevant and necessary. That preparer thinks that method B would encourage a paradigm shift in the mindset of preparers – every entity is likely to have different operating activities/models and it may be more difficult to develop a checklist template following this method. In addition, this preparer thinks that such method can encourage more integrated reporting between the financial statements and other parts of the annual report.
68. Practitioners from large accounting firms generally consider that there cannot be a 'one-size fits all' disclosure objective. In addition, drafting disclosures based on either method A or B would presume what users find useful. One practitioner thinks that the IASB could consider providing preparers with the flexibility of applying either method A or B.

HKICPA analysis and recommendation

69. The HKICPA notes that the development of disclosure requirements focusing on an entity's activities (i.e. method B) is still at the conceptual phase. Therefore, stakeholders may not be able to visualise what information would look like under method B and accordingly, assess their costs and benefits. The HKICPA recommends that the IASB provides example disclosures of what information under methods A and B would look like.
70. The HKICPA sees the pros and cons of locating centralised disclosure objectives

either within a single standard or set of standards. The HKICPA does not have any particular comments about the location of centralized disclosure objectives at the moment, given methods A and B are in the early stage of development.

NZASB 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 Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not?

Note that the Board is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB staff's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

Stakeholder views

71. Stakeholders who supported using method A in drafting disclosure requirements see the merits of the NZASB staff's proposals as it clearly states the objectives of disclosure requirements. However, they do not think that it can solve the disclosure problem if we do not address the mindset/behavioural problems of treating financial reporting as a compliance exercise.

72. Small-medium practitioners made the following suggestions on the NZASB's staff proposals:

    a) The draft text seems repetitive and cumbersome. For example, in the NZASB staff example 2, the disclosure objective for IAS 16 *Property, Plant and Equipment* is stated in paragraph 16.x1. However, similar wordings are repeated in each of the later paragraphs when describing the exact disclosure requirements. The NZASB staff can consider streamlining the objectives by using concise wordings or preparing one overarching disclosure objective for each standard.

    b) References could be made to the approach used in IFRS 7 *Financial Instruments: Disclosures* by using different headings or sub-headings to show clearly what types of information an entity needs to disclose or consider to disclose.

HKICPA analysis and recommendation

73. The HKICPA considers that method A may not be able to fully address the disclosure problem, as it promotes a similar disclosure approach as currently practised.

74. The HKICPA considers that behavioral causes of the disclosure problem will be difficult to tackle solely through incorporating disclosure objectives into IFRS Standards. Instead, it requires a paradigm shift in the mindset of all parties, including preparers, auditors and regulators, in order for them to embrace their roles in enhancing the relevance and usefulness of financial information. This requires a significant education and coordination effort, at least by the IASB, IAASB and IAESB. The HKICPA would be prepared to assist/support this in any way it can.
75. If the IASB were to further develop the NZASB staff proposals, the HKICPA recommends that the IASB considers the suggestions made by our small-medium practitioners when drafting disclosure objectives and provide further education as mentioned 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 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.

Stakeholder views and HKICPA analysis and recommendation

Please refer to our responses to Questions 1 and 2.

~ End ~