

Discussion Paper Discussion Initiative – Principles of Disclosure

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IFRS Foundation Publications Department
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Dear Sir,

Crowe Horwath International is pleased to respond to the International Accounting Standards Board Discussion Paper Discussion Initiative - Principles of Disclosure.

We welcome the Discussion Paper and the opportunity to address the approach to disclosures in financial statements. IASB has identified important and relevant issues that have to be developed further and be issued as Standards or Practice Statements. We agree with IASB's overall approach and this approach can lead to improved financial statements. There are areas where IASB can encourage innovation and flexibility in financial reporting that result in better communication. IASB should be open to improvements that make use of technology, acknowledging that the ways that financial information are delivered and consumed are changing.

Our detailed comments are presented in the appendix to this letter.

We trust that our comments are of assistance to the development this project.

Yours faithfully,

David Chitty
International Accounting and Audit Director

Appendix 1 - Responses to Questions for Respondents in Discussion Paper *Disclosure Initiative - Principles of Disclosure*

Question	Response
Overview of the 'disclosure problem' and the objective of this project	
Question 1	
Paragraphs 1.5-1.8 describe the disclosure problem and provide an explanation of its causes.	

<p>(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?</p> <p>(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?</p>	<p>We agree with the description of the problem and its causes.</p> <p>The development of principles of disclosure will contribute to addressing the disclosure problem.</p> <p>IASB should be giving greater priority to a standards level review of disclosures, as this would show they are tackling some of the causes of the problem, in advance of preparing the principles. This would also show how they are resolving the tension between individual disclosures that are sensible and a cumulative whole that is not.</p> <p>The development of principles of disclosure should debate not only what information a company should disclose but also what information it is reasonable for an investor to request this will help inform future developments.</p>
<p>Question 2</p>	
<p>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.</p> <p>Are there any other disclosure issues that the Board has not identified in this</p>	

<p>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?</p>	<p>The Discussion Paper presents a comprehensive assessment of disclosure issues. We have no further issues to add.</p>
<p>Principles of effective communication</p>	
<p>Question 3</p>	
<p>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.</p> <p>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.</p> <p>(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?</p> <p>(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?</p> <p>(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be</p>	<p>It is very important that IASB develops principles of effective communication. Financial reporting has become very complex and there are challenges, even for sophisticated users, to engage with and interpret information. Financial reports are presented with a wider range of other corporate reports. Traditional approaches to reporting are under challenge through technology and demands for more information across wider areas. It is the right time to look at underlying principles of communication.</p> <p>The list of principles of effective communication is an appropriate start for the process that could let to a statement of principles.</p> <p>The principles of effective communication should be issued as non-mandatory guidance. This promotes good practice, permits flexibility, encourages innovation and avoids the perceived constraints imposed by a standard.</p>

<p>prescribed in a general disclosure standard or issued as non-mandatory guidance?</p> <p>(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?</p> <p>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.</p>	<p>Non-mandatory guidance is preferred. Our reasoning is the same as above.</p> <p>We should wish to see Practice Statements. These have status and prominence of their own. Examples or implementation guidance could become "lost" or perceived as extensions of a standard, whilst educational material may not receive much attention.</p>
<p>Roles of the primary financial statements and the notes</p>	
<p>Question 4</p>	
<p>The Board's preliminary views are that a general disclosure standard should:</p> <ul style="list-style-type: none"> • 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 <i>Conceptual Framework</i> Exposure Draft, as described in paragraph 3.7. <p>In addition, the Board's preliminary views are that:</p> <ul style="list-style-type: none"> • it should not prescribe the meaning of 'present' as presented in the primary financial statements and 	<p>We agree with IASB's preliminary views. The standard has to cover the scope and role of the primary statements and the notes, in the way that is presented in the Discussion Paper.</p>

<p>the meaning of 'disclose' as disclosed in the notes; and</p> <ul style="list-style-type: none"> • 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'. <p>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?</p>	
<p>Location of information</p>	
<p>Question 5</p>	
<p>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).</p> <p>(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?</p> <p>(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)?</p>	<p>Entities should be permitted to present information required to comply with IFRS Standards outside the financial statements. This is an acknowledgement that the IFRS financial statements are one among several components of a typical corporate report. Complying with an IFRS requirement in another part of the report is potentially efficient, avoids duplication and has the potential to improve communication.</p> <p>Rather than addressing specific scenarios, issues to consider are the increasing complexity of corporate reports and having the opportunity to improve communication. Providing flexibility to present IFRS requirements outside the "formal" financial statements can permit compliant flexibility and innovation that improves communication and the overall quality of reporting.</p>

Question 6	
<p>The Board's preliminary view is that a general disclosure standard:</p> <ul style="list-style-type: none"> • 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). <p>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?</p>	<p>We agree with IASB's preliminary view. The reasoning is the same as permitting IFRS requirements to be presented outside the financial statements. In other situations, it is relevant and enhancing, to include non-IFRS information in the financial statements.</p>
Question 7	
<p>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.</p> <p>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?</p>	<p>At this stage, our preference is to consider how reporting can be improved rather than lists of prohibitions. Prohibitions should be kept to a minimum, if not avoided.</p>
Use of performance measures in the financial statements	
Question 8	
<p>The Board's preliminary views are that it should:</p> <ul style="list-style-type: none"> • clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are 	<p>We agree with IASB's preliminary views. EBITDA and EBIT are widely used terms. The presentation of subtotals for these aids consistency, comparability and</p>

<p>presented in accordance with paragraphs 85-85B of IAS 1:</p> <ul style="list-style-type: none"> ○ 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. <ul style="list-style-type: none"> • 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. <p>(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?</p> <p>(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?</p> <p>(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?</p> <p>The feedback on Question 8 will be considered as part of the Board's Primary Financial Statements project.</p>	<p>potentially enhances the quality and credibility of reporting.</p> <p>The history of financial reporting contains many examples of the challenges arising from the use of misuse of "special" terms including "exceptional" and "extraordinary". This is an area where IASB has to limit flexibility by limiting or prohibiting other terms.</p> <p>Addressing performance measures in the way presented is long overdue. We have nothing to add.</p>
<p>Question 9</p>	
<p>The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial</p>	<p>Performance measures should be addressed within a general performance standard. They are</p>

<p>statements, as described in paragraph 5.34.</p> <p>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?</p>	<p>presented as part of the performance statements.</p>
<p>Disclosure of accounting policies</p>	
<p>Question 10</p>	
<p>The Board's preliminary views are that:</p> <ul style="list-style-type: none"> • 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): <ul style="list-style-type: none"> ○ the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22-6.24; and <p>the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.</p> <p>(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?</p> <p>(b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting</p>	<p>We agree that a general disclosure standard should include requirements on determining which accounting policies to disclose. Improving the presentation and understanding of accounting policies is essential. Approaches to categorisation and presentation will be very beneficial for improving reporting.</p> <p>We agree with IASB's preliminary view and with the focus on Category 1 and 2 accounting policies. IASB should consider the extent to which accounting policy information can be presented separately in a document that the financial statements are linked to.</p> <p>A general disclosure standard is the best way to address accounting policies. The Discussion Paper has identified current reporting issues and the importance of categorising accounting policies. In view of the significance of accounting policies, improving their presentation should be addressed through a standard.</p>

<p>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?</p> <p>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.</p>	
<p>Centralised disclosure objectives</p>	
<p>Question 11</p>	
<p>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.</p> <p>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.</p> <p>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?</p>	<p>We agree that IASB should develop centralised disclosure objectives. The body of disclosures in IFRS standards has built up over many years in the absence of disclosure objectives. A reassessment of the approach to disclosure needs objectives that can be applied both in the review of current requirements and the development of future requirements.</p>
<p>Question 12</p>	
<p>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</p>	<p>Presenting two methods is helpful for discussion. A might be regarded as "safe", whilst B is "innovative".</p>

<p>as the basis for developing and organising disclosure objectives and requirements in Standards:</p> <ul style="list-style-type: none"> • 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). • Which of these methods do you support, and why? <p>></p> <p>2. 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.</p> <p>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.</p>	<p>There is widespread recognition that changes to the approach to disclosures are needed and therefore our preference is for B of for a hybrid. B's focus on the entity's activities potentially results in disclosures that are more relevant for users.</p> <p>We do not see a need to consider other approaches.</p>
<p>Question 13</p>	
<p>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?</p>	<p>On balance, we should prefer to see a single disclosure standard. There are strong advantages in having all disclosures in one place. The disadvantages highlighted in the discussion can be overcome. Breaking the link between disclosure requirements and a specific standard presents challenges, but automated links may be less of an issue than it might have been in the past.</p>