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Mr Hans Hoogervorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

25 September 2017

Dear Mr Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the *Discussion Paper DP/2017/1 Disclosure Initiative – Principles of Disclosure*, issued by the IASB on 30 March 2017 (the 'DP').

Principal authors of this comment letter were Christian Höllerschmid, Helmut Kerschbaumer, Gerhard Prachner, Andreas Rauter, and Alfred Wagenhofer. In order to assure a balanced Austrian view on the DP, the professional background of these authors is diverse.

Our detailed comments and responses to the fifteen questions raised in the DP are set out below.

If you would like to discuss our comments further, please do not hesitate to contact us.

Kind regards,

Romuald Bertl,
Chairman

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

General Comments

We think there is in fact a disclosure problem, and, therefore, we welcome the activities of the IASB to further improve disclosures.

1. Although the DP moves in the right direction, we feel that it is not sufficiently specific and does not go far enough to really affect disclosure in practice. We note that the IASB and other standard-setters have been already considering improvements of disclosures for quite some time. With that in mind, the DP is somewhat disappointing to us as it does not bring in new ideas concerning the issue.

For example, we notice that the disclosure requirements in current Standards include inconsistent requirements if seen from a broader perspective. This is due to many reasons, including a general trend towards more transparency, the history of standards, and areas, which have proven controversial and therefore amended by additional disclosures. Disclosure requirements have been increasing steadily over time. While we appreciate the intention of the DP to formulate general disclosure principles, we do not see how these new principles would significantly affect current disclosures.

We believe that it would be helpful to have some statistics stating which current disclosures are strongly used and which ones are not used and which are used by which audience, respectively.

2. We would like to see a discussion about the “typical” user of a financial report who should be supported by the development of principles of disclosure. For example, analysts are likely to be mainly interested in information about any changes of the current period as compared to the previous period as well as in disclosures, which are comparable to entities within the same industry, and they look for specific transactions and events and the way these are accounted for. In contrast, private investors probably rely on aggregated information about the entity and need more guidance concerning the relevance of information. Hence, disclosure of accounting principles is uninformative to professional investors, but probably interesting for less knowledgeable private investors. The DP touches on this issue in Section 6; but the question is relevant more generally.

3. Generally, we view the financial statements as a highly regulated set of information with a well-understood content and quality, which serves users as a basis for informing their decisions. Financial statements are not the only information source, but the content and quality is what makes them valuable. Blurring the boundaries of financial statements by allowing disclosure of IFRS information outside and non-IFRS information inside the notes harms this key objective. We therefore believe that better communication is something that is much more appropriate for a management commentary and other parts of an “annual report” than the IFRS financial statements.

4. We suggest including principles for electronic reporting. We are aware that this might be difficult to do, but it is worthwhile to consider. The DP contains several parts in which electronic reporting may have an effect. For example, effective communication depends on which source of information is available to users. Formats of disclosures depend on the type of publication. The location of information, particularly its characteristics, such as “audited”, is important. With the advance of

information technologies, particularly XBRL, there is a push for further standardization of disclosures through tags, and formats and boundaries of information become blurred.

5. We do not see a clear structure of the DP. It appears to us that it is a piecemeal collection of issues that arise when thinking about disclosures.

SPECIFIC COMMENTS

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?

Yes, we agree with the description of the problem.

We especially agree that the "checklist vs judgement" problem exists in practice. As long as auditors and enforcement institutions use checklists, preparers can avoid discussions with auditors and enforcement institutions and accounting risks by simply following the checklist. Therefore, principles, which provide guidance in order to overcome this concern, are most welcome.

(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?

The DP addresses two audiences (para. 1.9): preparers and the IASB. Therefore, we believe that disclosure principles that address preparers should be stated either in IAS 1 or in a general disclosure standard, depending on the detailed extent of these principles. Principles are necessary in order to derive specific disclosures in individual IFRSs and in order to guide the application of those specific disclosures. It would avoid the piecemeal approach that we are currently facing in IFRSs.

Principles of disclosure that address the IASB should be part of the Conceptual Framework and should amend those principles included there in its latest version.

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?

- Effects of information technologies to meet different information demands and electronic formats.
- Guidance on disclosures concerning the effect of new standards that will become effective in future periods.

- Consideration of other reporting frameworks that suggest the organisation of financial information, e.g. integrated reporting.

SECTION 2— 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?

Yes, we agree. We believe that such principles are an important authoritative source to improve the effectiveness of communication.

(b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why?

We agree with all seven principles. We also agree that it is important to emphasize that there might be a trade-off between some principles, particularly (a) – Entity specific and (f) – Comparability across firms and periods.

We believe consistency across periods (although it is included in IAS 1) should be part of the disclosure principles as well. After all, standard setting is about standardising particular information, and too much idiosyncratic disclosure impairs comparability.

Principle (g) – Providing formats for easier reading seems to complement the use of electronic format, such as XBRL. The principle applies to pre-defined reports, such as printed reports. XBRL offers easy ways to display information in any format defined by a user. It is conceivable that other institutions may come up with suggested formats based on the XBRL disclosures. With more specific formats, the IASB would keep the lead in this area. For example, IFRS might prescribe a particular format for reconciliation tables.

We agree with the IASB's view that stating a principle of cohesiveness is not necessary because it is encompassed in principle (d) – location.

(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance?

We favor the inclusion of the principles of effective communication in IAS 1 or perhaps in a general disclosure standard and the principles should be accompanied by illustrative examples.

Although we are aware that some of the principles may be difficult to enforce in practice, they nevertheless determine the aspiration against which to assess disclosure effectiveness. Moreover, we note there are also other principles that are difficult to enforce (e.g., materiality, relevance vs faithful representation).

We are not in favor of new forms of IASB publications outside the standards or interpretations for at least two reasons:

(i) We believe that it is not clear what the mandatory status of those publications would be.

(ii) It is an open issue whether the EU will endorse IASB publications other than the standards, and if the guidance was not endorsed, its role and applicability in the EU would be unclear.

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

We believe non-mandatory guidance concerning formatting is useful for preparers. The guidance offers a benchmark and a kind of “safe harbor” for compliance with IFRS. It would also lead to more comparability between financial statements. See also our response to Question 3(b).

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.

As we discussed above, we prefer stating principles in a standard, amended by an appendix for non-mandatory text or by illustrative examples, to other forms of guidance as the status of the latter might be unclear.

SECTION 3—Roles of the primary financial statements and the 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?

We generally agree with the preliminary view to define and use "primary financial statements" and to describe their role.

However, we suggest addressing the question of the importance of other "statements" in addition to the statement of financial position, statement of comprehensive income and statement of cash flows. Para. 3.3 of the DP includes the statement of changes in equity, which might be less important than other statements, such as reconciliation tables of fixed assets roll forward for some industries, or segment reporting, both of which we often see prominently displayed at, or prior to, the beginning of the notes.

We think it is very important to specify the intended location of disclosures besides using "present" or "disclose". Being worldwide standards, IFRS should clearly bear in mind translation issues of their Standards. Including the location makes translations more precise.

SECTION 4—Location of information

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?

Section 4 deals with the location of information (i) that is part of the financial statements prepared under IFRS but reported outside the financial statements; and (ii) that is not part of the financial statements prepared under IFRS but reported within the financial statements. Currently, we see both variants of annual reports.

In the light of this fact, it seems reasonable to also allow disclosure of IFRS information outside the financial statements, if it improves communication. This is the preliminary view of the IASB (para. 4.36 of the DP). However, our concern as to this approach is that it will be difficult to clearly distinguish what information has been audited and where the boundaries to the audited information are (see also para. 4.31 of the DP). It is not clear to us, for example, whether Category C information is audited or not.

Therefore, we suggest that deviations from the "natural" location (within or outside the IFRS financial statements) should be extremely limited. While the requirements in para. 4.9 of the DP are reasonable, we believe that

(i) there should be strict limits to such shifts of locations and

(ii) the documents that include IFRS financial statement information should be included in a single larger document, an annual report or a similar document. For example, we do not agree that the documents are "published at approximately the same time" (para. 4.22 of the DP), but they should be published together in a single document. Location matters for the interpretation of information.

We also find it difficult to clearly distinguish Category C from Category B information. Hence, applying the disclosures outlined in 4.38 (a) – (c) may not be practical.

The issue of location (including characteristics such as "compliant with IFRS" or "audited") is particularly important for electronic reports. We, therefore, suggest developing principles for electronic reporting.

(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)?

Austrian law prescribes additional disclosures to the IFRS financial statements. This information can be included in an appendix to the statements or in the mandatory management commentary, although most entities include some of it in the notes. Issues may also arise if an entity decides to present an integrated report, where the structure of the report follows other principles than the typical structure of a financial report.

<u>Question 6</u>

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?

From a perspective of effective communication, the Board's view seems apparent. We also note that some IFRSs require non-IFRS information to be included in the financial statements. Examples are IFRS 7 (risk disclosures) and IFRS 8 (segment earnings).

However, we are concerned that non-IFRS information cannot be clearly distinguished from IFRS information and that the basis and the quality of non-IFRS information is unclear (e.g. whether it is audited or not). Therefore, we suggest that, as a principle, the IASB should prohibit the inclusion of information that is not fully compliant with IFRS or national regulation.

To illustrate this issue, we believe that non-IFRS performance measures should not be included in the notes as they often include adjustments that are difficult to understand. On the other hand, information, which is a breakdown of an item and is required according to IFRS, should be allowed because it is clear that it must have been audited.

Question 7

The Board did not discuss whether any specific information—for example, information that is inconsistent with IFRS Standards—should be required to be identified as described in paragraphs 4.38(a)–(c) or should be prohibited from being included in the financial statements.

Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

As stated above, the IASB should prohibit the inclusion of information that is not required by IFRSs or national regulation and is inconsistent or in conflict with IFRS. However, we are aware that in practice it may be difficult to distinguish between consistent and inconsistent non-IFRS information.

SECTION 5—Use of performance measures in the financial statements

Question 8

The Board's preliminary views are that it should:

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

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

We believe that the discussion of performance measures should not be part of the principles of disclosure. They should be dealt with in the IASB's Primary Financial Statements project. Nevertheless, we respond to the questions as follows:

Generally, we suggest applying the same principles as developed in Section 4 of the DP. In particular, it should be allowed to add subtotals that are consistent with IFRS and do not affect other line items that have to be presented. The reason is that such subtotals support effective communication of the entity's performance. This suggests that EBIT should be explicitly allowed if not required. EBITDA should be allowed in the statement of profit or loss under the nature of expense method and as a disclosure in the notes under the function of expense method.

If the information does affect other line items, e.g. non-recurring items in other expenses, we think that these performance measures should not be presented on the face of the primary financial statements. If they are based on IFRS, they can be disclosed in the notes with a full break-down. For example, management can discuss various events or items that help users to better understand how earnings have evolved, what components are important to the entity or what particular circumstances were responsible for its performance.

(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?

We consider it very difficult and contestable to find a working definition for unusual or infrequently occurring items. The definition would probably highly depend on individual entities' business and circumstances. Recall the earlier requirement to present extraordinary items separately, which was then eliminated.

As stated above, we suggest that items that are included in several line items should be prohibited from presentation in the primary financial statements, but a break-down of the performance measure (that is consistent with IFRS) can be disclosed and discussed in the notes.

(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 Board may also consider the existing guidance in IAS 1.98.

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?

Yes, we agree. However, we refer to our response to non-IFRS disclosures (question 6).

SECTION 6—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?

We agree that the disclosure of accounting policies is an important topic and we also agree with the preliminary view in the DP.

(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.

We have not formed an opinion regarding the location of accounting policy disclosures because it is difficult to identify the specific advantages and disadvantages of or even the need for guidance.

However, if the IASB considers formulating guidance, consistent with our earlier comments, we suggest that it is issued in a non-mandatory appendix of a Standard and not in a separate publication.

SECTION 7—Centralised disclosure objectives

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?

Yes, we agree. Centralised disclosure objectives are an important basis for the consistent development of standard-specific disclosure requirements and for their consistent application.

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?

Method A is closer to the way entities are currently organising their disclosures. Method B seems to be a more integrative approach of organising disclosures, but we have several concerns about it (besides the fact that the objectives and requirements should then be located in a single overarching standard):

(i) Method B is difficult to apply in practice;

(ii) we think the way information is disclosed according to Method B is what professional investors and analysts try to elicit from disclosures by their individual analyses (see para. 7.25 of the DP). It is probable that there are many views, and it may not be in line with investors' views to give entities the discretion to choose what they think are their main activities. As is apparent in the Appendix of the DP, there are fewer requirements that can be formulated than under Method A;

(iii) Method B may reduce comparability across entities (e.g. in a particular industry).

We do note, however, that Method B might be viewed as more in line with recent developments, such as Core or More, Integrated Reporting, and others.

The fact that the IASB considers a hybrid of Method A and B suggests that it is possible to have standards that are written based on Method A, that entities, however, can rearrange the disclosures in a way as to be closer to what Method B aims to achieve.

(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.

A method that is related to Method B would be focusing on sets of assets and liabilities based on the entity's major processes. E.g. the cash-generating cycle from purchasing to receiving payment from customers would relate to disclosures about purchase commitments, inventories, and accounts payable.

<u>**Question 13**</u>

Do you think that the Board should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?

We prefer that disclosure objectives and requirements are located in the respective Standard that deals with a specific accounting issue. Setting the requirements in a single Standard would be impractical to apply because preparers use different Standards when dealing with a specific issue.

We note that considering the arguments for a single Standard as in para. 7.39 of the DP could similarly be applied to measurement, implying a single measurement Standard would be preferable, to which we do not agree.

SECTION 8—New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards

<u>Question 14</u>

This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards.

(a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?

We generally agree with the main features noted.

We believe that the emphasis on the need to exercise judgement – similar to applying materiality – should be a principle rather than an objective stated in each Standard.

We like the idea of a two-tier system and the suggestion of using less prescriptive language in the disclosure requirements. We have not discussed in detail, if the resulting disclosure requirements are sufficiently general or detailed to provide a useful framework for disclosures.

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

Based on the information we received, we are unable to assess the effects of operationalising this approach.

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

We believe any approach that has been developed to improve disclosures should be considered by the IASB.

<u>Question 15</u>

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.

This question goes back to the checklist vs principles-based disclosure requirements. We believe a principles-based approach is important to address the disclosure problems.

IFRSs were developed for specific transactions and events, at different times and by a board with different board members, which led to noticeable differences in disclosure requirements both in content and language. We believe that developing overarching disclosure principles is an important step towards improving disclosures. We note that the recent activities to clarify and improve the application of materiality are a good precedent for developing high-level disclosure principles.