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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Board Members,

RE: DISCUSSION PAPER 2017/1 DISCLOSURE INITIATIVE – PRINCIPLES OF DISCLOSURE

The Committee on Corporate Reporting (CCR) of Financial Executives International Canada (FEI) is pleased to respond to the International Accounting Standards Board's ("IASB's") request for comment on the **Disclosure Initiative – Principles of Disclosure Discussion Paper.**

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 1,500 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

CCR is one of seven thought leadership committees of FEI Canada. CCR is devoted to improving effectiveness of corporate reporting, the awareness of issues and educating FEI Canada members on the implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

FEI supports the IASB's efforts to improve the effectiveness of financial statement disclosure. In general, FEI is supportive of proposed guidelines that provide clarity about existing requirements, improve the effectiveness of disclosures and reduce the disclosure of irrelevant information.

Our detailed response to the questions in the invitation to comment are provided in the Appendix to this letter. This includes suggestions for reconsideration or further clarification of certain of the proposals.

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Thank you for the opportunity to respond to this important initiative.

Sincerely,

Susan Campbell
Chair — Committee on Corporate Reporting

Appendix

Section 1: 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.

(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?

We agree with concerns about the disclosure of irrelevant information and ineffective communication. Preparers sometimes follow a check-list approach which leads to the inclusion of irrelevant information as a means to mitigating risk that regulators and auditors will want or query whether that information should be included in the financial statement disclosure.

(b) Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

We agree that guidance on disclosure would be helpful to the IASB in developing a general disclosure standard. It would provide guidance to preparers in developing disclosures and to regulators and auditors in reviewing disclosures. Given the shift in changing disclosure practices for many stakeholders, this guidance will need to be accompanied by an educational effort that covers preparers, auditors and regulators in support of changing disclosure practices. Guidance should be non-mandatory rather than in a standard.

Question 2:

Sections 2-7 discuss specific disclosure issues that have been identified by the Board and provide the Boards 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?

A key issue is the scope of what information should be included in the financial statements. For example, while we agree that information about material estimates and judgments should be disclosed, we do not feel that financial statements disclosures should be required to address risks to non-financial instruments including property, plant and equipment.

It is important that the information and disclosures included in the financial statements should be auditable. Auditing is not part of the mandate of the IASB. However, the audit of financial statements is a critical element in the credibility and usefulness of financial reporting. We therefore think that the IASB should ensure that all disclosure requirements are auditable. This may require discussions with the IAASB.

Section 2: Principles of Effective Communication

<u>Question 3</u>:

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?

We agree that developing principles of effective communication would add value. This would be particularly helpful to smaller financial statement preparers who have limited resources.

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(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 the principles listed. Examples will be necessary to communicate these effectively and the principles should be linked to materiality.

(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?

Principles of effective communication should be included in non-mandatory guidance. Application of these principles will be subjective and they are not suited to be included within 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?

Yes, however it should be non-mandatory guideline.

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 paragraphs 2.13(a)–(c)] and give your reasoning.

If there is not a general disclosure standard, then a practice statement supported by educational material for all stakeholders is a suggested approach.

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;***

  We agree with the proposal.

- ***describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24;***

  We agree that a general disclosure standard should describe the role of financial statements at a high level. However, this is necessarily subjective in terms of what should be included in the primary statements and what should be included in the notes. However, we think more guidance should be provided on the following issues:

  - Providing for comparisons with other entities and focusing on significant items may be in conflict.

  - The line items on the face of the financial statements will have different relative importance for various companies and/or industries, resulting in separate conclusions on what is appropriate to group/separate on the face of primary financial statements versus what is appropriate to break out in the notes, and the level of disclosure in the notes.

- ***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***

  We agree however, we think that paragraph 3.27(b) needs better definition. We agree with risks related to measurement such as market risk and credit risk in the financial statements. However, balance sheet items are subject to many risks other than the financial instruments risks including political risk, climate change, and technology risk and that should be discussed in the management commentary and not in the financial statements.

- ***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.***

  We agree with the guidance with exception of paragraph 3.7(d), forward looking information about future transaction should not be included in the financial statements.

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'.***

  The key is to clearly distinguish and define between what is to be separately presented in the primary financial statements and what is to be disclosed in the notes. The IASB preliminary view likely easier for preparers and other users of IFRS than the alternative of prescribing new, more precise meanings to existing terminology. The IASB should amend existing standards to comply with proposed practice.

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?

No further comments

Section 4: Location of Information

<u>Question 5</u>

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?

We do not believe that the general disclosure standard should include a principle that an entity can provide information necessary to comply with IFRS outside the financial statements. The information is better placed in the financial statements so that the financial statements are complete and can be read without reference to other disclosure documents.

As previously noted, we are also concerned with the ability of the auditor to provide assurance on information included outside of the financial statements.

(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)?

We do not feel that the information required by IFRS should be reported outside the financial statements, if the IASB does permit this, we think that management of capital (IAS1.134) should be able to be reported in the discussion on key risks in the management commentary.

Significant accounting policies should always be disclosed in 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 labeling, 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?

Non–IFRS information and forward looking information should not be included in the financial statements in any circumstance. We agree that Categories A and B in 4.33 should be included in the financial statements. However, Category C is very broad and it may be difficult to put effective boundaries between Categories B and C.

Including statements that certain information is non-IFRS (4.38a-c) will be confusing to the readers, and it also raises issue of boundaries between Categories B and C

Need to discuss feasibility from audit perspective with IAASB. Will users be able to understand what information is (a) prepared on an externally prescribed basis and (b) audited and how will it impact the communication within the audit report.

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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?

We think that non–IFRS information and forward looking information should be prohibited from inclusion in the financial statements.

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;***
- ***the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method; and***
- ***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 agree. Where common performance measures are included such as EBITDA and EBIT, they should be permitted to be included as sub totals.

We do not feel that definitions of unusual or infrequently occurring are a realistic objective as the application of these terms is very subjective and will create inconsistencies across companies. These items are more appropriately reported in Management Commentary.

1. ***Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?***

   Yes, they should be prohibited.

2. ***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?***

   If presentation of unusual or infrequent items is permitted, additional disclosure would be required about the nature of the item and why it is unusual or infrequent.

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?

The IASB should not encourage inclusion of performance measures in financial statements, these belong in management commentary. If the IASB wants to specify requirements for non-IFRS measures, it should do so outside the standards similar to management commentary i.e. in a Practice Statement.

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Section 6: Disclosure of Accounting Policies

<u>**Question 10**</u>

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 judgments and assumptions adjacent to disclosures about related accounting policies, unless another organization 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 with developing a standard on how to determine whether it is necessary to disclose an accounting policy. There is some concern that disclosures in 6.16 a-c will become boilerplate, therefore suggest that disclosure simply say that "these are the material accounting policies" of the company and are limited to those described in C1 and C2.

(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?

We agree with including with accounting policies in one location. We feel that all accounting policies should be disclosed in a single note. The IASB should consider including guidance to support including accounting policies in one location within IAS 1 (paragraphs 118 – 121). We also feel that disclosure of accounting estimates and judgments should be in one location, next to the disclosure of accounting policies.

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.

Not applicable

Section 7: Centralized Disclosure Objectives

<u>Question 11</u>

The Board's preliminary view is that it should develop a central set of disclosure objectives (centralized disclosure objectives) that consider the objective of financial statements and the role of the notes.

Centralized 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 centralized disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

We agree that the Board should develop an overall framework that specifies the objectives of disclosures. This will lead to more consistency in disclosure requirements.

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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 organizing 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?

There are merits to both Method A and B. While Method B may lead to more consistent disclosure requirements, it would not work well for all industries. Method A would tie the policy to the financial statement line item, therefore assisting the reader. The board should consider combining Method A and B into a hybrid approach.

(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.

No additional methods.

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 centralized 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?

The current practice of having disclosures in each standard is useful to preparers in considering the total requirements of a standard as it is logical for preparers to address the accounting and disclosure together within the same section of the handbook.

In addition, the IASB could consider producing a supplement containing all the disclosure requirements in the various IFRSs.

Section 8: New Zealand Accounting Standards Board 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 summarized 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?

We do not have a view on Question 14.

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 judgment 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).

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 judgment 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.

We feel that disclosure principles that are linked to materiality would be beneficial. These principles would need to be accompanied with education material for all stakeholders.