Prof. Dr. Sonja Wüstemann
European University Viadrina Frankfurt (Oder), Germany

Discussion of the Paper „Introducing More IFRS Principles of Disclosure – Will the Poor Disclosures Improve?“

IASB Research Forum, Brussels, 28 November 2017
Disclosure Initiative—Principles of Disclosure

Comments to be received by 2 October 2017
Scope of the paper: Limitation to Section 1 and 2 should be made clear

SECTION 1—OVERVIEW OF THE ‘DISCLOSURE PROBLEM’ AND THE OBJECTIVE OF THIS PROJECT
Questions for respondents

SECTION 2—PRINCIPLES OF EFFECTIVE COMMUNICATION
Summary of the Board’s preliminary views and questions for respondents

SECTION 3—ROLES OF THE PRIMARY FINANCIAL STATEMENTS AND THE NOTES
Summary of the Board’s preliminary views and questions for respondents

SECTION 4—LOCATION OF INFORMATION
Summary of the Board’s preliminary views and questions for respondents

SECTION 5—USE OF PERFORMANCE MEASURES IN THE FINANCIAL STATEMENTS
Summary of the Board's preliminary views and questions for respondents

SECTION 6—DISCLOSURE OF ACCOUNTING POLICIES
Summary of the Board’s preliminary views and questions for respondents

SECTION 7—CENTRALISED DISCLOSURE OBJECTIVES
Summary of the Board’s preliminary views and questions for respondents

SECTION 8—NEW ZEALAND ACCOUNTING STANDARDS BOARD STAFF’S APPROACH TO DRAFTING DISCLOSURE REQUIREMENTS IN IFRS STANDARDS
Assumption of reduction in specific requirements is not supported by the DP (1/4)

Assumption on which the paper is built

“The DP suggests a greater use of disclosure principles and indicates that this might be followed by a reduction in the prescribed specific requirements” (p. 3, referring to IASB DP 2017, para. 4.18).

Aim of the paper

“evaluate the effects of introducing more high-level principles of disclosure in IFRS Standards” (p. 3).
The objective of this project

1.11 This Principles of Disclosure project focuses on identifying and better understanding disclosure issues, and developing new or clarifying existing disclosure principles to address those issues. A set of disclosure principles could range from high level concepts—for example, overall principles of effective communication or a basis for developing disclosure objectives and requirements (centralised disclosure objectives)—to general requirements for disclosing information. The principles would build on some of the existing requirements in IAS 1 and on the concepts being developed in the Board’s project to revise the existing Conceptual Framework for Financial Reporting (the Conceptual Framework (2010)).

1.13 The Principles of Disclosure project is likely to result either in amendments to IAS 1 or in the creation of a new general disclosure standard to build on and replace the parts of IAS 1 that cover disclosures in the financial statements. The project might also result in the development of some non-mandatory guidance.
Assumption of reduction in specific requirements is not supported by the DP (3/4)

1.16
(c) **The Standards-level Review of Disclosures project:** the objective is to consider whether to make targeted improvements to disclosure requirements in existing Standards and to develop guidance for the Board to use when developing disclosure requirements in new and amended Standards. This research project will be informed by the disclosure principles developed in this project and by the feedback received on this Discussion Paper.
Assumption of reduction in specific requirements is not supported by the DP (4/4)

Reference to DP 4.18 relates to specific issue outside the scope of the paper

Section 4—Location of information

Including information necessary to comply with IFRS Standards outside the financial statements

4.18 If a principle is included in a general disclosure standard, it might be possible to delete the specific requirements in the Standards described in paragraph 4.3.

Assumption is challenged by the authors in the end of the paper

“It is not clear whether the suggested increased reliance on principles of disclosures in the DP is expected to replace the need for specific disclosure requirements” (p. 24).
Addressees, motivation for literature review and contribution of the paper should be pointed out in the Introduction

Addressees

- **Standard-setter (IASB):** „a critical review of empirical evidence on disclosures and the drivers of compliance may inform standard setters on decisions regarding **how to further develop standards on disclosure requirements**” (p. 8)
- **Academics:** “also aims to critically evaluate these studies with regard to employed methodology and theoretical foundations which is supposed to be **helpful in making future research propositions**” (p. 8)

Contribution should be spelled out more clearly

- How do the findings and conclusions help the IASB in the Disclosure Initiative?
- How does the paper build on and further develop previous literature?
- **Recommendation:** Include application of the rules-versus-principles debate to disclosure issue as normative (academic) contribution
The theory used in the paper should be more thoroughly developed (Section 3)

Theoretical framework: principles-based accounting standard setting

- Include **more literature**, e.g.:

- Explain interaction and clearly distinguish between **different concepts**: use of (good faith) judgement – compliance – enforceability – enforcement (p. 6) by using more literature
Propositions are not in line with the Conceptual Framework – Why should the IASB deviate from the CF in the Disclosure Initiative? (1/2)

1. Project’s focus on primary users is too narrow → The **context of entities, auditors and regulators** should be included (p. 25–26).

   - CF sets focus on primary users (existing and potential investors, lenders and other creditors) and not other parties, such as regulators (CF.OB2–10).

2. More emphasis should be put on **enforceability and auditability** in order to secure a certain minimum level of disclosure (p. 26).

   - Enforceability and auditability are not qualitative characteristics in the CF
   - Comparability and verifiability are “only” enhancing QC (CF.QC19).

3. The IASB should **design more specific requirements** that logically support the principles (p. 25).

   - Would anybody disagree?
   - Make the link back to theoretical definition of principles-based standards.
Propositions are not in line with the Conceptual Framework – Why should the IASB deviate from the CF in the Disclosure Initiative? (2/2)

Assumed particularity of disclosure as regards compliance and enforceability

„It seems like one difference with the disclosure principles, compared to accounting principles regarding classification, recognition and measurement, is that **there will always exist more than one way to communicate effectively** (the disclosure outcome) whereas applying a principle of, for example, measurement to the specific circumstances of an entity should result in a particular measurement outcome which is compliant.” (p. 6)

Counterclaim: inclusion of future-oriented (uncertain) information necessarily leads to different recognition and measurement outcomes that comply with IFRS

„The ‘principles-based’ approach theoretically **permits public companies to have differing accounting judgments** within the framework of these broad principles“ (Dickey and Scanlon 2006, p. 13).

„Users would have to accept that companies would not always adopt exactly the same treatment for dealing with particular situations ... If two or more methods are appropriate to achieve the result the principle desires then these have to be accepted. (Tweedie 2005, p. 7–8).