

STAFF PAPER

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IASB Meeting

Project	Disclosure Initiative: Principles of Disclosure		
Paper topic	Project next steps—location of information		
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Objective

1. The objective of this paper is to present staff analysis and recommendations to the Board about next steps on the Principles of Disclosure project. Specifically, this paper discusses whether, and how, the Board should develop requirements about IFRS information outside the financial statements, and non-IFRS information inside the financial statements.

Overview

2. This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraph 3);
 - (b) Background (paragraphs 4-9);
 - (c) Outreach and consultation (paragraphs 10-15);
 - (d) Approach to staff analysis (paragraph 16);
 - (e) IFRS information outside the financial statements (paragraphs 17-33);
 - (i) Standard-setter feedback (ASAF) (paragraphs 17-24);
 - (ii) Regulator feedback (paragraphs 25-28);

- (iii) IAASB feedback (paragraph 29);
 - (iv) Staff analysis (paragraphs 30-32);
 - (v) Staff recommendation and question for the Board (paragraph 33);
- (f) Non-IFRS information inside the financial statements (paragraphs 34-54);
- (i) Standard-setter feedback (ASAF) (paragraphs 34-43);
 - (ii) Regulator feedback (paragraphs 44-45);
 - (iii) IAASB feedback (paragraph 46);
 - (iv) Staff analysis (paragraphs 47-50);
 - (v) Staff recommendation and question for the Board (paragraph 51-54);
- (g) Appendix A—Existing IFRS Standards disclosure requirements that permit IFRS information outside the financial statements;
- (h) Appendix B—Extracts from IAS 1 *Presentation of Financial Statements*.

Summary of staff recommendations

3. We recommend that the Board does not develop requirements about IFRS information outside the financial statements or non-IFRS information inside the financial statements.

Background

4. Section 4 of the *Disclosure Initiative—Principles of Disclosure* Discussion Paper considered whether the Board should develop any requirements relating to entities providing:
- (a) information that is necessary to comply with IFRS Standards ('IFRS information') outside the financial statements; and

- (b) information that is not necessary to comply with IFRS Standards ('non-IFRS information') inside the financial statements.
5. The Board received similar feedback on this topic from all stakeholder types, including users of financial statements. That feedback is summarised in paragraphs 6-8 below and was discussed in detail by the Board in its February 2018 meeting (*February 2018 Agenda Papers 11B and 11H*).
6. Most respondents agreed that both IFRS information outside the financial statements and non-IFRS information inside the financial statements can be useful in some circumstances. Furthermore, many respondents agreed with the Board developing requirements in these areas. However, those respondents had mixed views on the content of any requirements. Respondents also had many concerns that they thought the Board would need to address before developing any requirements.
7. With respect to IFRS information outside the financial statements, respondents were primarily concerned about:
- (a) **use of terms such as 'annual report'**—in particular, respondents were concerned about terms that the Board might use to define different locations (such as 'annual report') being interpreted differently in different jurisdictions;
 - (b) **excessive use of cross-referencing**—respondents were concerned that, if used excessively, providing IFRS information outside the financial statements would make the financial statements overly fragmented and difficult to understand. They were also concerned that it might be difficult for users to identify the complete set of financial statements that has been audited;
 - (c) **ongoing access to and availability of information**—ie whether IFRS information disclosed in a location other than the financial statements would be easily available to users in the long term, and remain unchanged;
 - (d) **potential audit implications**—for example, the implications of IFRS information being disclosed in a document that does not fall within the scope of the audit;

- (e) **the effect of technology and digital reporting**—respondents thought advances in technology might make any requirements redundant. For example, respondents suggested that any descriptions of locations in which the Board might permit IFRS information could cease to have meaning in a digital reporting environment. Other respondents thought advances in technology might increase the risks around availability of unchanged information (see paragraph 7(c)).
8. With respect to non-IFRS information in the financial statements, respondents were primarily concerned about:
- (a) **defining ‘non-IFRS information’ in an operational way**—many respondents did not think the Discussion Paper clearly explained what constitutes ‘non-IFRS information’. Respondents questioned whether and how the Board would be able to do this in an operational way;
- (b) **interaction with IAS 1/Board’s remit**—requirements in IAS 1 (see Appendix B), mean that any information needed to achieve a faithful representation is, by definition, IFRS information. Some think that developing requirements about any other information is not within the Board’s remit;
- (c) **implications of permitting non-IFRS information in the financial statements**—some think that if information is relevant, it should be required in the financial statements. If it is not required, then it would be better to amend the Standards than to permit disclosure of such information. Furthermore, some think that permitting disclosure of non-IFRS information would undermine the quality of the Standards as a reporting framework;
- (d) **interaction with local laws and regulations**—some jurisdictions have local requirements to include additional information in the financial statements. Consequently, any requirements developed by the Board might interact with local laws and regulations in an unhelpful way;
- (e) **potential audit implications**—in particular, respondents were concerned about achieving clarity over which information in the financial statements has been subject to audit;

- (f) **limiting useful information that is provided today**—many entities already disclose non-IFRS information on a voluntary basis and this information is often useful to users. Any requirements developed by the Board might discourage entities from providing disclosures that are useful today; and
 - (g) **use of Board time**—as described above, voluntary disclosures are often provided today and are generally well received. Consequently, it might be difficult to justify the Board spending time on this issue.
9. In its March 2018 meeting (see *March 2018 Agenda Paper 11A*) the Board decided that, in order to make an informed decision on next steps, it needed additional information about:
- (a) the potential benefits of developing requirements in this area—ie whether such requirements are expected to lead to a substantial improvement in communication; and
 - (b) the potential risks and costs of developing requirements in this area. In particular, any potential interaction with local laws and regulations and potential audit implications.

Outreach and Consultation

Standard-setters and regulators

- 10. Subsequent to the March 2018 Board meeting, staff and Board members have performed outreach and consultation with standard-setters and regulators. We selected these stakeholders because the primary area in which the Board needed more information related to jurisdictional issues.
- 11. We consulted with national standard-setters at the April 2018 meeting of the Board's Accounting Standards Advisory Forum (ASAF).
- 12. We consulted with regulators via two organisations representing groups of regulators. Through those consultations, we heard feedback from around 30 regulators across different jurisdictions. **Please note that all regulator feedback**

reported in this paper represents informal opinions only and does not represent the official views of any respondents.

International Auditing and Assurance Standards Board (IAASB)

13. The Board has received significant feedback from stakeholders about potential audit consequences of any requirements the Board might develop on the location of information. The most prevalent concerns related to:
- (a) the interaction of any requirements with auditor responsibilities. In particular, the consequences of the Board permitting incorporation by cross-reference to documents that are not required to be audited;
 - (b) whether any terms used by the Board to describe the location of information (such as ‘annual report’), would be consistent with the terms used in auditing standards and the descriptions of auditor responsibility; and
 - (c) ensuring that all IFRS information is audited, and ensuring that users of financial statements are able to identify the complete set of information that has been subject to audit.
14. The IAASB themselves provided detailed feedback on this topic, both via the comment letter process and through outreach on the Board’s Exposure Draft of improvements to IFRS 8 *Operating Segments*, which addressed some similar considerations¹. The IAASB identified similar concerns to other respondents, but also suggested how the Board might address some of those concerns (see paragraphs 29 and 46).
15. Nevertheless, we think that if the Board does develop any requirements about the location of information, it is critical to seek input from the IAASB throughout the process of developing those requirements.

¹ The Board discussed the March 2017 Exposure Draft Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34) with the IAASB. In particular, the IAASB provided feedback about: (i) the use of terms similar to ‘annual report’; and (b) the possibility of information relating to segments being located outside the financial statements in other parts of an entity’s ‘annual reporting package’.

Approach to staff analysis

16. For both IFRS information outside the financial statements, and non-IFRS information inside the financial statements, we have summarised:
- (a) feedback received from standard-setters and regulators through consultation and outreach activities;
 - (b) relevant feedback received from the IAASB; and
 - (c) staff analysis and recommendations about the Board's next steps.

IFRS information outside the financial statements

Standard-setter feedback (ASAF)

Concerns

17. We asked ASAF members to share any concerns they had about how any requirements about IFRS information outside the financial statements might be applied in their jurisdiction. Many ASAF members had concerns about potential audit implications if the Board develop requirements about IFRS information outside the financial statements. In particular:
- (a) the interaction with auditor's responsibilities if IFRS information were contained in a document that does not fall within an auditor's scope. ASAF members questioned whether IFRS information outside the financial statements would be subject to that same level of audit scrutiny as the financial statements;
 - (b) whether it would be possible for auditors to provide a complete opinion on the financial statements as a whole if information is spread across different documents;
 - (c) potential consequences for those jurisdictions which either do not adopt International Standards of Auditing ('ISA') or have additional local Standards of Auditing which must be adhered to. ASAF members thought the Board would need to consult with local auditing standard-setters to identify and resolve any issues;

- (d) potential increased audit costs; and
 - (e) boundaries of audited and non-audited information. In particular, ASAF members were concerned that it might be difficult for users to understand exactly what has and has not been audited.
18. A few ASAF members re-iterated similar concerns about the use of cross-referencing to those identified through comment letter feedback. For example, they thought that cross-referencing would make it difficult to identify the complete set of information that makes up the financial statements.

Local laws and regulations

19. We asked ASAF members to provide specific examples of any local laws and regulations that the Board should consider. Examples cited by ASAF members on this topic generally related to concerns about the use of specific terms—such as ‘annual report’—to describe where IFRS information might be located. Several jurisdictions define the term ‘annual report’, although the definitions and related filing requirements described were different in different jurisdictions. For example, in Korea, the annual report is issued after the financial statements, so cross-referencing between the two documents would not be possible. In some jurisdictions, there is no legal definition of terms such as ‘annual report’.
20. Some ASAF members added that they expect any terms used to define a particular location (for example, ‘annual report’) will become redundant in a digital reporting environment.

Suggestions

21. We also asked ASAF members for any suggestions as to how the Board might address the various concerns raised on this topic. Most ASAF members that provided a view would support the Board developing principles about the location of IFRS information, rather than using specific terms to describe where IFRS information may be located. For example, such an approach might permit IFRS information outside the financial statements to be located only in a document that is available at the same time and on the same terms as the financial statements and will continue to be available for as long as the financial statements are available.

22. Some members stated that they would not support a principle stating that any document containing IFRS information must remain unchanged after the financial statements are issued. These members thought that such a principle would not be operational because anything can be changed. These members also noted that in some circumstances documents must be changed. This might be the case, for example, if a prior period error is identified.
23. One member supported the Board specifying particular disclosures that can be provided outside the financial statements, rather than developing general requirements on this topic. They thought this approach would allow some flexibility in different jurisdictions because it would be less likely to interfere with local laws and regulations than other approaches.
24. One member did not support permitting IFRS information outside the financial statements. This was because users would have to look at multiple documents to get the information they need.

Regulator feedback

25. We asked regulators to provide examples of information that is required to be disclosed outside the financial statements that is similar to information required by IFRS Standards. The purpose of this question was to identify areas of potential duplication that might be reduced if the Board were to permit IFRS information outside the financial statements. Regulators provided many examples, including the following:
 - (a) information about risks and uncertainties, for example specific information on the use of financial instruments and the related risks;
 - (b) information about transactions after the reporting date;
 - (c) related party information;
 - (d) segmental reporting information;
 - (e) share-based payments; and
 - (f) employee benefits.

26. We asked regulators to provide examples of how the terms ‘annual report’, ‘annual reporting package’, ‘single reporting package’ and ‘single document’ might be interpreted in their jurisdiction. The purpose of this question was to identify if any of these terms could be used in a helpful way that would be interpreted consistently across different jurisdictions. Regulators provided detailed feedback on all of the listed terms, and some additional terms. The feedback demonstrated that all of these terms are either used differently in different jurisdictions, or are not defined. The feedback received did not identify any terms that are interpreted consistently across different jurisdictions.
27. Finally, we asked regulators whether they thought it would be feasible for the Board to adequately address the jurisdictional concerns raised by comment letter respondents. Many regulators thought this would be feasible and said that the Board developing requirements in this area would be worthwhile. Many added that they supported the Board clarifying when and how incorporation by cross-reference is permitted. However, some cautioned the Board that if cross-referencing to information outside the financial statements were permitted too broadly, this could cause problems. This might be the case, for example, if cross-referencing were permitted to documents that are outside the scope of accounting enforcement.
28. A few regulators thought the Board should not develop requirements in this area. In some cases this was because they thought that doing so could be very time consuming and detract from more urgent Board activities. Some said that in their jurisdictions, financial statements are not considered complete unless they contain all the information required by IFRS Standards. They added that if the Board were to permit or mandate IFRS information outside the financial statements this may not be well received in those jurisdictions. Some also added that to address duplication, it is better to disclose IFRS information in the financial statements and include cross-references in other documents rather than including cross-references in financial statements. In other words, they would support cross-references outside the financial statements to information inside the financial statements, but not the opposite.

IAASB feedback

29. In its comment letter response to the Discussion Paper, the IAASB identified similar concerns to other respondents, but also identified how the Board that might address some of the concerns. For example, the IAASB comment letter included the following suggestions in respect of IFRS information outside the financial statements:

- (a) **availability of information outside the financial statements:** “In practice, we do not believe that it would be possible to [cross-reference to] any document not prepared by the time the audited accounts are approved by the entity. In our view, consideration should therefore be given to replacing “at approximately the same time as” with “not later than”;
- (b) **auditability of information outside the financial statements:** “In principle, we believe that [items cross-referenced into the financial statements] would be auditable so long as [those items are] available to the auditor in sufficient time before the auditor issues the auditor’s report”; and
- (c) **identification of audited information:** “Paragraph 4.9(c) of the DP requires that the information outside the financial statements must be “clearly identified and incorporated in the financial statements by means of a cross-reference that is made in the financial statements”. We support this criterion. We believe that the understandability of what constitutes the audited financial statements would also be enhanced if this principle included a corresponding criterion that the information should, in its location outside the financial statements, be clearly identified as incorporated in the financial statements by means of a statement to that effect and a cross-reference to the financial statements”.

Staff analysis

30. The Discussion Paper described two benefits to the Board developing requirements about IFRS information outside the financial statements:

- (a) promoting consistency in stakeholder views about whether and when IFRS Standards permit information to be incorporated by way of cross-reference. Since publishing the Discussion Paper, the Board has received little feedback on this point:
- (i) some stakeholders have explicitly stated that, in their view, cross-referencing is *not* permitted (other than when a particular requirement provides explicit permission – see Appendix A);
 - (ii) we have not received explicit feedback from stakeholders who think general incorporation by cross-reference *is* permitted today. Some stakeholders have noted that incorporation by cross-reference is used in practice. However, the examples provided generally related to those instances in which specific permission is provided in a particular IFRS disclosure requirement (see Appendix A); and
- (b) providing entities with flexibility about the location of information and, consequently, helping them to communicate information more effectively. For example, the ability to disclose IFRS information outside the financial statements could help entities avoid duplication, keep similar information together and ‘tell a story’ in a more coherent way overall. Many stakeholders have commented on this benefit. Those who support the Board developing requirements about IFRS information outside the financial statements generally do so because of the flexibility that it could provide.

31. Considering the analysis in paragraph 30, we think the primary benefit of developing requirements in this area is that it would provide flexibility about how best to communicate information (see paragraph 30(b)). We think that in deciding whether to further develop requirements, the Board needs to decide whether this benefit justifies potential risks relating to the various concerns identified by respondents.

32. The table below summarises the primary concerns raised through comment letter feedback and outreach activities. It also summarises the staff’s assessment as to whether the concerns can be effectively addressed if the Board decides to develop requirements about IFRS information outside the financial statements.

Concern identified (see paragraphs 7)	Staff analysis—can the concern be effectively addressed?	
Use of the term ‘annual report’ or other similar terms	<p>Yes</p> <p>We do not think it would be possible for the Board to address the concerns raised about specific terms being interpreted differently in different jurisdictions. However, we think that the Board could avoid these concerns by developing principles-based requirements rather than referring to particular documents. For example, the Board might specify that IFRS information can be provided in a document that is available at the same time and on the same terms as the financial statements.</p>	✓
Excessive use of cross-referencing	<p>Yes</p> <p>We think the Board could largely address concerns about excessive cross-referencing by developing requirements that clearly limit the extent of cross-referencing that is permitted. This could be achieved in either of two ways:</p> <ul style="list-style-type: none"> (a) specifying particular disclosures that can be provided outside the financial statements (there are existing examples of this in IFRS 7 and IAS 19); or (b) developing requirements that identify limited circumstances when incorporation by cross-reference is permitted. For example, this might be permitted when information similar to IFRS information is required by law or regulation. 	✓

	Note however, that limiting cross-referencing in this way could limit the benefits of permitting IFRS information to be disclosed outside the financial statements (see paragraph 30).	
Cross-referencing would not be welcomed in some jurisdictions (see paragraph 28)	No We do not think the Board would be able to effectively address concerns from jurisdictions in which financial statements are not considered complete unless they contain complete information (see paragraph 28).	✘
Ongoing access to and availability of information	Not entirely We think the Board could develop principle-based requirements designed to mitigate this problem, for example, by requiring any IFRS information outside the financial statements to be available at the same time and on the same terms as the financial statements. However, we do not believe the Board could develop requirements that would guarantee available and unchanged information outside the financial statements indefinitely. Consequently, we do not think the Board could entirely address this concern.	✘
Potential audit implications	Yes, with sufficient time and resources Based on feedback from the IAASB, we think that solutions could be found to the identified issues. However, we also think this could require substantial time and resources to achieve.	✓
Effects of technology and digital reporting	No We do not think concerns about obsolescence of any requirements are resolvable. In particular, we think that any requirements developed in this area would be operational only in a paper-based reporting environment and thus would fail to be ‘technology neutral’ (see also Agenda Paper 11G). Furthermore, we think the risk of obsolescence is exacerbated by the fact that addressing potential audit issues is likely to take some time.	✘

Staff recommendation and question for the Board

33. Considering the analysis in paragraph 32, we recommend that the Board does not develop any requirements about IFRS information outside the financial statements. This is because, on balance, we do not believe the benefits of developing such requirements outweigh the concerns. In particular:
- (a) **limited benefits:** we think the primary benefit of developing requirements is providing flexibility to entities about how to best communicate information (see paragraph 30(b)). However, we think the only way to effectively address concerns about excessive cross-referencing would be to permit IFRS information outside the financial statements only in very limited circumstances (see paragraph 32). Consequently, we think that if the Board develop requirements, the benefits for stakeholders will be limited;
 - (b) **potential unintended consequences:** we think that any requirements in IFRS Standards about cross-referencing will be applied differently in different jurisdictions. For example, the particular location of IFRS information will vary due to local reporting requirements in each jurisdiction. Consequently, we think that developing requirements in IFRS Standards could give rise to unintended consequences. We think such requirements could do more harm than good in some jurisdictions;
 - (c) **concerns that cannot be addressed:** we do not think the Board would be able to fully address all of the concerns identified (see paragraph 32). In particular, we do not think the Board would be able to develop requirements that would guarantee the ongoing availability of unchanged IFRS information if that information were contained outside the financial statements. We also think that any requirements developed would not be ‘technology neutral’ and would carry a risk of future obsolescence; and
 - (d) **Board time:** finally, we think that developing requirements that address the identified concerns (to the extent possible) would take significant

time. In light of the analysis above, we do not think that time is justified.

Question 1

Does the Board agree with the staff recommendation that the Board should not develop requirements about IFRS information outside the financial statements?

Non-IFRS information in the financial statements

Standard-setter feedback (ASAF)

The definition of ‘non-IFRS information’

34. Many respondents to the Discussion Paper identified concerns about how the Board might define ‘non-IFRS information’. Consequently, we asked ASAF members whether they had any advice about how the Board might define ‘non-IFRS information’.
35. ASAF members re-iterated many of the concerns raised by respondents to the Discussion Paper about the definition of ‘non-IFRS information’. Many members noted that it would be difficult to define this term in an operational way, and some members cautioned the Board against trying to do so.
36. Some ASAF members noted that there are useful voluntary disclosures that don’t give rise to concerns (for example, some non-financial information such as sales volumes). Members were concerned about the possibility of the Board effectively prohibiting disclosure of such information if it tries to define ‘non-IFRS information’.
37. A few ASAF members thought the Board should identify different types of non-IFRS information. For example, members suggested subsets of non-IFRS information such as information that is required under local laws and regulations.

Interaction with IAS 1

38. We asked ASAF members whether they thought it was helpful and appropriate for the Board to develop requirements about information that is not required to

achieve a fair presentation (ie information that is not required by IAS 1 or any other Standard).

39. Some ASAF members expressed confusion about the interaction of any definition of ‘non-IFRS information with the requirements in IAS 1 (see Appendix B). Some noted that, by definition, non-IFRS information is not required to achieve fair presentation. Consequently, they thought non-IFRS information should generally not be provided. One member noted that defining ‘non-IFRS information’ might lead to jurisdictional interpretation issues about whether additional information provided meets the definition or not.
40. Some other members drew a distinction between information that is ‘necessary’ (ie information required by IAS 1) and information that is ‘helpful’. These members supported the provision of non-IFRS information that is ‘not necessary but helpful’.
41. Some ASAF members also expressed concerns about potential audit implications of any requirements the Board might develop. This is because for non-IFRS information, there is no Standard against which to audit. One member added that non-IFRS information in the financial statements gives rise to confusion for users about what information has been subject to audit.
42. In addition, a few ASAF members were concerned about how a primary user would determine which information in the financial statements has been audited.

Benefits

43. We also asked ASAF members whether they think the potential benefits of the Board developing requirements in this area are worth the risk of discouraging entities from providing useful voluntary information. ASAF members re-iterated that voluntary disclosures provided today are often useful. Some cautioned the Board against developing requirements that could be interpreted as prohibiting useful voluntary disclosures. One member said that a prohibition on ‘non-IFRS information’ could, for example, be interpreted to mean that information in financial statements cannot be disaggregated beyond specifically required line items. Another member noted that they would prefer to see good information inside the financial statements rather than elsewhere.

Regulator feedback

44. We asked regulators to provide examples of local requirements for entities to include specific non-IFRS information in the financial statements. The purpose of this question was to identify any examples for which the Board developing requirements in this area could give rise to unhelpful interactions with local laws and regulations. Regulators provided many examples of such information. These examples included, but were not limited to, the following:
- (a) information about management remuneration;
 - (b) auditor remuneration;
 - (c) employee numbers;
 - (d) material transactions and arrangements or unusual, atypical or non-recurring transactions;
 - (e) responsibility statements;
 - (f) funds allocated from state budgets, local governments or aid, and how such funds are used;
 - (g) effects of related party transactions on the financial statements;
 - (h) information about particular reserves;
 - (i) industry specific disclosures, eg for energy companies.
45. We also asked regulators if they thought non-IFRS information in the financial statements is a particular concern in their jurisdiction. Some regulators thought this was not an issue. Other regulators thought there was an issue and that requirements from the Board could be helpful. Regulators expressed mixed views on what they thought those requirements should do:
- (a) some thought financial statements should include only IFRS information;
 - (b) some thought the Board should prohibit non-financial non-IFRS information in the financial statements;
 - (c) some thought the Board should prohibit information that has no immediate link to IFRS information from the financial statements;

- (d) some thought there are mixed views about whether IAS 1 already permits the provision of non-IFRS information in the financial statements, and thought it would be helpful for the Board to clarify this; and
- (e) some thought the provision of non-IFRS information is more useful for investors than its inclusion in presentations or other unaudited documents. These regulators added that it might be helpful if the Board could govern the provision of such information.

IAASB feedback

46. In its comment letter response to the Discussion Paper, the IAASB identified similar concerns to other respondents, but also suggested how the Board that might address some of the concerns. For example, in their comment letter, the IAASB comment letter included the following in respect of non-IFRS information inside the financial statements:

“The Working Group encourages the IASB to consider requiring a consideration of potential inconsistencies, by management, where [non-IFRS] information that is not audited or reviewed is permitted to be included in the financial statements. This could be achieved by adding another criterion to those in [the Discussion Paper] requiring management to consider if [non-IFRS] information appears to be inconsistent with the financial statements and to address the inconsistency. Aligning management and auditor responsibilities in this respect would enhance auditability.”

Staff analysis

47. As noted by many stakeholders, non-IFRS information is often provided in financial statements today. Consequently, the primary benefit of the Board developing requirements in this area is that it would clarify for all stakeholders exactly what is and is not permitted. In practical terms, there is a balance between:

- (a) giving entities more ability to keep similar information together and ‘tell a story’;
- (b) avoiding non-IFRS disclosures in the financial statements that are misleading, excessive or otherwise unhelpful.

48. Considering all feedback received, we think there is a risk that if the Board developed requirements that limit the provision of non-IFRS information in the financial statements, it could give some entities less flexibility than they have today. In particular, any requirements developed by the Board carry a risk of stopping entities from providing voluntary disclosures that are already useful to users of financial statements.
49. Consequently, in deciding whether to pursue this topic any further we think the Board needs to decide whether the benefits of developing requirements outweigh the various concerns raised.

50. The table below summarises the primary concerns raised through comment letter feedback and outreach activities. It also summarises the staff’s assessment as to whether the concerns can be effectively addressed if the Board decides to develop requirements about non-IFRS information inside the financial statements.

Concern identified (see paragraph 8)	Staff analysis—can the concern be effectively addressed?	
Defining non-IFRS information in an operational way	<p>Yes</p> <p>We think the Board could address this concern by <i>not</i> defining ‘non-IFRS information’. Instead, we think the Board could define different types of information and develop specific requirements for each type. For example, the Board might develop requirements for information that is misleading; information that contradicts IFRS information; or information that local laws and regulations require to be included in the financial statements.</p>	✓
Interaction with IAS 1 / Board’s remit	<p>No</p> <p>We agree with those stakeholders who say that any information required to achieve faithful representation is IFRS information (see Appendix B). Consequently, any requirements the Board develops about non-IFRS information would—by definition—relate to information that is <i>not</i> required to achieve a faithful representation. We think the Board would be unable to address the concerns of those who question why the Board would develop any requirements about such information.</p>	✗
Implications of permitting non-IFRS information in the financial statements	<p>No</p> <p>We think that if the Board develops any requirements about non-IFRS information in the financial statements, it would be unable to resolve the concerns of those who think this would undermine the Standards as a reporting framework.</p>	✗

<p>Interaction with local laws and regulations</p>	<p>Yes</p> <p>We think it will be challenging for the Board to balance all of the different jurisdictional views on this topic (see, for example, paragraph 45). Nevertheless, we do think the Board could resolve the primary concern about unhelpful interactions with local laws and regulations. In particular, the Board could explicitly permit information required by law or regulation to be disclosed in the financial statements. This would avoid the risk of it being impossible for an entity to comply with both IFRS Standards and local laws and regulations.</p>	✓
<p>Potential audit implications</p>	<p>Yes</p> <p>We think the Board could address concerns about achieving clarity over which information has been subject to audit. For example, the Board might consider developing requirements about explanatory information that must accompany any non-IFRS information in the financial statements. Such explanatory information could include a requirement to state whether or not information has been audited.</p>	✓
<p>Limiting useful information that is provided today</p>	<p>No</p> <p>We agree with those respondents who say that any requirements developed by the Board might discourage entities from providing useful disclosures. This could be the case if the Board prohibited any particular type of non-IFRS information. It could also be the case if the Board developed requirements that entities consider to be onerous or overly prescriptive.</p> <p>We think the only way the Board could fully address this problem would be to develop requirements that permit disclosure of non-IFRS information without limitations. In light of other concerns described in this paper, we do not think such an approach would be realistic.</p>	✗
<p>Use of Board time</p>	<p>No</p> <p>Based on all of the outreach performed, we do not think the Board has enough evidence of potential benefits to justify spending time developing requirements in this area. This is primarily because voluntary disclosures are often provided today and are generally well received.</p>	✗

Staff recommendation and question for the Board

51. Considering the analysis in paragraph 50, we recommend that the Board does not develop requirements about non-IFRS information outside the financial statements. This is for three primary reasons.
52. First, we think that developing any requirements in this area would risk interfering with something that appears to be working today. In particular, any requirements developed by the Board could discourage entities from making voluntary disclosures that are useful to users.
53. Second, we agree with those stakeholders who question how any requirements would interact with IAS 1. In particular, we think it would be difficult for the Board to:
- (a) identify an operational line between:
 - (i) information captured by paragraph 112(c) of IAS 1 (see Appendix B), and is therefore IFRS information; and
 - (ii) information that is not captured by paragraph 112(c) of IAS 1, but is nevertheless useful to users of financial statements;
 - (b) justify time spent developing requirements about information that, by definition, is not required to achieve a faithful representation.
54. Finally, we think that feedback received through comment letters and outreach has not identified any significant enough benefits to justify the Board spending further time on this topic. We acknowledge that most stakeholders support non-IFRS information being permitted in the financial statements in some circumstances. However, we think that any activity by the Board would only help to refine something that is already happening today. We do not think such activity would lead to significant improvements in communication effectiveness.

Question 2

Does the Board agree with the staff recommendation that the Board should not develop requirements about non-IFRS information in the financial statements?

Appendix A—Existing IFRS Standards disclosure requirements that permit IFRS information outside the financial statements

References that relate to financial statements

IFRS 7 *Financial Instruments: Disclosures* (paragraph B6)

The disclosures required by paragraphs 31-42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

IAS 19 *Employee Benefits* (paragraph 150)

The information required by paragraph 149(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

- (a) that group entity's financial statements separately identify and disclose the information required about the plan; and
- (b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

References that relate to interim reports

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (paragraph 32(b))

In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with IAS 34 for the part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes those reconciliations.

IAS 34 *Interim Financial Reporting* (paragraph 16A)

In addition to disclosing significant events and transactions in accordance with paragraphs 15-15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete.

Appendix B—Extracts from IAS 1 *Presentation of Financial Statements***IAS 1 *Presentation of Financial Statements***

- 31 ...An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- 55 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.
- 85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.
- 112 The notes shall:
- ...
- (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them