

STAFF PAPER

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Project	Disclosure Initiative—Targeted Standards-level Review of Disclosures		
Paper topic	Guidance for the Board—Developing disclosure requirements		
CONTACT(S)	Siobhan Hammond	shammond@ifrs.org	+44 (0) 20 7246 6937
	Kathryn Donkersley	kdonkersley@ifrs.org	+44 (0) 20 7246 6970

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Objective

1. The objective of this paper is to present staff analysis and recommendations to the Board about the development of Guidance for the Board to use when developing and drafting disclosure objectives and requirements. In particular, we will be asking the Board to make decisions about how it will develop disclosure objectives and requirements in future.
2. This paper is the second of three staff analysis papers about the Guidance for the Board. We plan to bring staff analysis on the final element of the Guidance for the Board in July 2018 (see *Agenda Paper 11B*).

Overview

3. This paper is structured as follows:
 - (a) Background (paragraphs 4-5);
 - (b) Summary of staff recommendations (paragraphs 6-8);
 - (c) IFRS Taxonomy (paragraphs 9-14);
 - (d) The proposed process for the development of disclosure objectives and requirements (paragraphs 15-40):

- (i) step one—understand the existing issue (paragraphs 20-22);
 - (ii) step two—understand what stakeholders want and why (paragraphs 23-28);
 - (iii) step three—understand what disclosures would be required to support proposed recognition and measurement requirements (paragraphs 29-33);
 - (iv) step four—perform a cost / benefit analysis (paragraphs 34-37);
and
 - (v) step five—understand and document the effects of the proposed disclosure objectives and requirements (paragraphs 38-40);
- (e) Appendix A—Summarised approach to developing disclosure objectives and requirements.

Background

- 4. In its March 2018 meeting, the Board decided to develop Guidance for the Board to use when developing and drafting disclosure objectives and requirements (see *March 2018 Agenda Paper 11B*).
- 5. In May 2018, the Board made decisions about how it would use disclosure objectives in future (see *May 2018 Agenda Paper 11B*).

Summary of staff recommendations

- 6. The primary objectives of the proposed approach to developing disclosure objectives and requirements are to ensure that:
 - (a) disclosure objectives and requirements are based on stakeholder needs. Stakeholder needs will be determined by considering user information needs and finding an appropriate balance between cost and benefit;
 - (b) disclosure objectives and requirements are considered throughout the life of the project; and

- (c) the knowledge and experience of the IFRS Taxonomy team is effectively leveraged when developing disclosure objectives and requirements.
7. In order to help meet the objectives listed in paragraph 6, staff recommend that, when developing disclosure objectives and requirements in future, a member of the IFRS Taxonomy team should be assigned to each of the Board’s active projects in an advisory capacity. In particular, staff recommend that the IFRS Taxonomy team is engaged to help the project teams better understand and assess:
- (a) the current disclosure objectives and/or requirements;
 - (b) any issues with current disclosure objectives and/or requirements;
 - (c) any potential issues with the disclosure proposal(s);
 - (d) whether or not the disclosure proposal(s) can be incorporated into the IFRS Taxonomy;
 - (e) the interaction of the disclosure proposal(s) with existing common reporting practice, IFRS Standards and accompanying materials such as implementation guidance and illustrative examples;
 - (f) whether any disclosure proposals are ‘technology neutral’; and
 - (g) stakeholder feedback on all of the above.
8. Staff also recommend that the Board adopt the five-step approach to developing disclosure objectives and requirements described in paragraphs 20 to 40. In summary, this approach involves the consideration of disclosure objectives and requirements at all stages of the project by:
- (a) step one—understanding the existing issue (paragraphs 20-22);
 - (b) step two—understanding what stakeholders want and why (paragraphs 23-28);
 - (c) step three—understanding what disclosures would be required to support proposed recognition and measurement requirements (paragraphs 29-33);
 - (d) step four—performing a cost / benefit analysis (paragraphs 34-37); and

- (e) step five—understanding and documenting the effects of the proposed disclosure objectives and requirements (paragraphs 38-40).

IFRS Taxonomy¹

9. The IFRS Taxonomy improves communication between preparers and users of general purpose financial reports. In doing so, the IFRS Taxonomy reflects the presentation and disclosure requirements of IFRS Standards and includes elements from the accompanying materials to the IFRS Standards such as implementation guidance and illustrative examples. Further, it contains elements for disclosures not specifically required by IFRS Standards but commonly reported in practice.
10. The IFRS Taxonomy team can provide crucial insight into the development of disclosure proposals as they are able to provide advice on whether the proposals can be effectively implemented in an electronic reporting environment. Further, they can also provide the project team with insight into how the disclosure proposals will interact with existing disclosure objectives and requirements and common reporting practice. This is because the IFRS Taxonomy team have a more in-depth knowledge about all disclosure requirements across IFRS Standards than individual project teams. Specifically, the IFRS Taxonomy team are able to provide advice about the clarity and consistency of disclosure requirements across IFRS Standards.
11. The IFRS Taxonomy team can also provide advice to individual project teams about how disclosure requirements will be reflected in an electronic reporting environment. The role of electronic reporting will be considered as part of the Board's broader strategy for the implications of technology on financial reporting. This strategy is currently being developed following feedback received from stakeholders (including in response to the March 2017 *Principles of Disclosure* Discussion Paper—see **February 2018 Agenda Paper 11D**). However, regardless of how this strategy evolves, we think it is important for the Board to consider whether any disclosure

¹The recommendations in this section relate to how the IFRS Taxonomy team can further support the standard-setting process. This section does not relate to the Due Process of the IFRS Taxonomy itself.

proposals are technology neutral. In other words, whether the disclosure proposal(s) can be applied in both an electronic reporting format and a paper-based format.

12. The IFRS Taxonomy team will also be in a position to assist the project team in analysing stakeholder feedback with regard to any concerns about existing or proposed disclosure requirements. For example, this might be the case if the Board received feedback from stakeholders that a proposed requirement was duplicative or inconsistent with the disclosure requirements in other Standards. Conversely, the project team can provide the IFRS Taxonomy team with support for changes which will be required in the IFRS Taxonomy as a result of any new disclosure proposal(s).

13. Consequently, we believe that a member of the IFRS Taxonomy team should be assigned to each of the Board’s active projects in an advisory capacity. This will ensure that the IFRS Taxonomy team are able to provide support and input throughout the life of the project. By including the IFRS Taxonomy team at an earlier stage of the project than is currently the case, we anticipate that the disclosure proposal(s) will be more effective. The staff acknowledge that this recommendation will have resource implications for the IFRS Taxonomy team. However, we believe the recommendation is realistic because:
 - (a) the level of involvement of the IFRS Taxonomy team advisor would vary depending on the project—for example, the IFRS Taxonomy team advisor would provide more support in the development of disclosure objectives and requirements for a new Standard than in the development of an amendment. Nevertheless, we think the appropriate amount of involvement should be discussed with the IFRS Taxonomy team advisor for all projects; and
 - (b) at this stage our recommendation relates to an approach that will be tested on one or two Standards in the latter half of the year and remains subject to change (see *Agenda Paper 11B*). The resource implications of this recommendation will be considered as part of testing.

14. The staff recommend that the objectives of the IFRS Taxonomy team advisor should be to help the project team fully understand:
 - (a) the current disclosure objectives and/or requirements;

- (b) any issues with current disclosure objectives and/or requirements. For example:
 - (i) any common application challenges or inconsistencies; and
 - (ii) any duplication or unhelpful interaction between requirements in different IFRS Standards;
- (c) any potential issues with disclosure proposals;
- (d) whether or not the disclosure proposal(s) can be incorporated into the IFRS Taxonomy. For example, whether the disclosure proposals are clear enough for relevant taxonomy elements to be created;
- (e) the interaction of the disclosure proposal(s) with existing common reporting practice, IFRS Standards and accompanying materials such as implementation guidance and illustrative examples. For example, understanding whether common reporting practice indicates there is some useful information that is not addressed in the disclosure proposal(s);
- (f) whether any disclosure proposals are ‘technology neutral’—ie whether the proposals can be applied effectively in both an electronic reporting format and a paper-based format; and
- (g) stakeholder feedback on all of the above.

Staff recommendation and question for the Board

Question 1

Does the Board agree with the staff recommendation that, when developing disclosure objectives and requirements in future, a member of the IFRS Taxonomy team should be assigned to each of the Board’s active projects in an advisory capacity, with the objectives described in paragraph 14? This would initially be tested as part of the Targeted Standards-level Review of Disclosures.

The proposed approach for the development of disclosure objectives and requirements

15. Staff have developed a flexible approach to developing disclosure objectives and requirements that can be adapted to any project. The approach assumes the inclusion of a member of the IFRS Taxonomy team as an advisor to the project team (see paragraph 14). Further, some activities described in the staff recommendation are already requirements of the Due Process Handbook. The requirements in the Due Process Handbook relate to standard-setting activities more generally and do not provide disclosure specific guidance for the Board. Therefore we have included elements of Due Process requirements within this section because we think that it is helpful for the staff recommendations to reflect a complete process for the development of disclosure objectives and requirements.
16. The approach has been developed for consideration by individual project teams—ie it will be dependent on each individual project team assessing the extent to which the activities suggested in the approach are relevant to them, and whether more or less stakeholder, and other, activities are required. For example, there is likely to be more stakeholder outreach required when the Board develops a new Standard than when it develops a minor amendment.
17. This approach is not fixed, rather it will be used as a foundation which will be built upon using feedback received as well as the experience of project teams. In the first instance, the approach will be tested and improved by applying it to one or two IFRS Standard(s) as part of the Board’s Targeted Standards-level Review of Disclosures project. In the longer term, the approach described in paragraphs 20 to 40 will be subject to change based on feedback from both stakeholders and project teams about its practical application.
18. The approach can be summarised as follows (Appendix A):
 - (a) step one—understand the existing issue (paragraphs 20-22);
 - (b) step two—understand what stakeholders want and why (paragraphs 23-28);
 - (c) step three—understand what disclosures would be required to support proposed recognition and measurement requirements (paragraphs 29-33);

- (d) step four—perform a cost / benefit analysis (paragraphs 34-37); and
 - (e) step five—understand and document the effects of the proposed disclosure objectives and requirements (paragraphs 38-40).
19. The approach focuses on better involving stakeholders—in particular primary users and preparers—and the IFRS Taxonomy team throughout the life of the project.

Step one—understand the existing issue

20. This step focuses on understanding the existing issues with information that users of financial statements receive—including any existing issues with disclosure objectives and/or requirements within the context of the project. Not all projects will be disclosure specific—for example, they might begin because of an identified recognition and measurement concern. However, we think that all projects are added to the Board’s agenda because users of financial statements are not receiving the information that they want. We think that understanding the underlying issues is an essential first step in developing effective disclosure objectives and requirements.
21. This step would typically occur during the research phase of the project—particularly during the development of a:
- (a) Request for Information;
 - (b) Research Paper; or
 - (c) Discussion Paper.
22. In order to understand the existing issue, the project team may consider performing the following activities:
- (a) identify the issue—consider how the project first came to the Board’s attention and the reasons behind why it has escalated to the Board agenda;
 - (b) identify the scope of the issue—perform a review of literature and other research activities to obtain a greater understanding of how wide-spread the issue is; and

- (c) obtain stakeholder feedback on the issue—where relevant, consider the inclusion of a specific question addressing the existing issue with disclosure objectives and/or requirements in, for example, a Request for Information.

Step two—understand what stakeholders want and why

- 23. This step focuses on both users of financial statements and other stakeholders.
- 24. This step would typically occur during the development and/or analysis of a:
 - (a) Discussion Paper; or
 - (b) Exposure Draft.

Users of Financial Statements

- 25. With regard to users of financial statements, we think the Board will need to:
 - (a) obtain an understanding of the information needs of primary users. Specifically, the Board will need to discuss with primary users:
 - (i) what information they want disclosed;
 - (ii) why they are interested in that information;
 - (iii) what analysis they will perform using the information;
 - (iv) how precise and granular information needs to be in order to adequately meet information needs; and
 - (v) the relative priorities of the requested information. For example, the Board should ask users to distinguish between information that is critical to their analysis and information that is ‘nice to have’. The Board should also ask users what disclosure they believe is essential in the financial statements and what disclosure can be obtained through other means (eg through press releases, management reports, quarterly reports, etc);
 - (b) summarising feedback from primary users in a way that will enable the Board to develop specific and effective disclosure objectives. At this stage, the Board will need to make sure that it understands all requests for disclosure in sufficient detail to be able to develop disclosure objectives and requirements in the way described in the *May 2018 Agenda Paper 11B*, ie:

'an entity shall disclose information that enables users of financial statements to [understand/assess/review/compare] y. To meet this objective, an entity shall consider disclosing x'.

26. Activities which may help the Board obtain and analyse feedback on what users want and why include, but are not limited to:

- (a) outreach programme—consider tailoring an outreach programme specific to primary users of financial statements. This should focus on specific questions designed to gather the information described in paragraph 25(a). In designing the outreach programme, the Board should consider all of the following:
 - (i) conducting formal group outreach meetings, for example with the Board's Capital Markets Advisory Committee or other investor groups;
 - (ii) collaborating with National Standard-Setters, for example to arrange user group discussions in different geographies;
 - (iii) consulting with investors in the Board's Investors in Financial Reporting programme;
 - (iv) consulting with a balance of buy-side and sell-side investment professionals;
 - (v) consulting with a geographically diverse mix of investment professionals; and
 - (vi) consulting with a balance/mix of equity and credit oriented investment professionals;
- (b) feedback received through comment letters from primary users. This will be particularly relevant when the Board has asked a specific question about user information needs in a Request for Information or Discussion Paper. In those documents, the Board should consider asking specific questions designed to gather the information described in paragraph 25(a).

Other Stakeholders

27. In addition to understanding the information needs of users of financial statements, we also think the Board will need to consult with other stakeholder types to understand

their priorities and concerns about disclosure requirements in the relevant project.

This may include, but is not limited to:

- (a) fully understanding the cost consequences of existing and potential new disclosure requirements from preparers of financial statements. This might include:
 - (i) identifying requirements that preparers consider to be unduly onerous and understanding why that is the case; and
 - (ii) whether there are alternative disclosures that might meet the same information need but be less costly to prepare;
- (b) whether preparers of financial statements typically disclose additional information that is useful to their stakeholders but is not required by IFRS Standards, and why this is the case;
- (c) any regulatory consequences of existing or potential new disclosure requirements. For example, this might involve identifying requirements that are challenging to enforce and whether they could be improved; and
- (d) the interaction of existing or potential new disclosure requirements with jurisdictional requirements. This might include:
 - (i) any jurisdictional requirements that are considered to be particularly useful that are not required by IFRS Standards; and
 - (ii) any unhelpful overlap or duplication between disclosure requirements in IFRS Standards and local requirements.

28. Activities that may help the Board understand the priorities and concerns of stakeholders other than users include, but are not limited to:

- (a) outreach meetings with preparers, regulators, National Standard-Setters, accounting firms, accountancy bodies, and others. This could involve individual meetings or public round tables;
- (b) consultation with the Board's advisory bodies and consultative groups, including the Global Preparers Forum, Accounting Standards Advisory Forum and the Advisory Council; and

- (c) feedback received through comment letters. This will be particularly relevant when the Board has asked a specific question about disclosure requirements in a Request for Information or Discussion Paper. In those documents, the Board should consider asking specific questions designed to gather the information described in paragraph 25(a).

Step three—understand what disclosures would be required to support proposed recognition and measurement requirements

- 29. This step will ensure that disclosures required to support the proposed recognition and measurement requirements are considered in light of the stakeholder needs identified in Step Two.
- 30. This step would typically occur during the development and/or analysis of an Exposure Draft.
- 31. In some cases disclosure requirements can provide information to primary users that cannot be obtained by any other means—for example, where there is no specific recognition or measurement criteria within the Standard to satisfy a particular information need. In these cases, disclosures may be the best way to address the issue(s) identified in Step One. On the other hand, disclosure requirements can directly support the recognition and measurement criteria within the Standard—for example, by providing information about measurement judgements. Staff believe the Board should be considering both of these types of disclosure requirements throughout the life of the project.
- 32. To achieve this, we think the Board should discuss relevant disclosure requirements at each stage of developing recognition and measurement proposals. In particular, the Board should not leave consideration of disclosure only to the very end of a project. We think it is likely that the Board would want to have a summary discussion about all disclosure requirements in the latter stages of finalising, for example, an Exposure Draft. However, we think it is important that the Board also considers and discusses what disclosures are necessary to support the proposed recognition and measurement requirements *as it develops them*. In many cases we think that any disclosure

discussion towards the end of a project stage should largely be a summary and confirmation of disclosure decisions made earlier.

33. In many cases, we expect that the feedback received in Steps One and Two will facilitate Board discussions about the disclosures necessary to support recognition and measurement requirements. However, where necessary, consideration should also be given to further discussions with the Board’s advisory bodies and consultative groups as part of Step Three if any clarification or additional feedback is required.

Step four—perform a cost / benefit analysis

34. Following analysis and the development of project proposals, it is important to obtain an understanding of the effect of the proposed disclosure requirements on preparers and the perceived benefit that users will gain from the requested disclosures. Further, this analysis should also consider the prioritisation of disclosure objectives and requirements.
35. This step will most likely occur during the development of final documents for publication, in light of feedback received in response to an Exposure Draft. For example, the project team may decide to include a specific question in an Exposure Draft requesting views on the proposed disclosure objectives and requirements and their potential cost and/or benefit. The team may also decide to design a dedicated outreach programme to gather feedback on the proposed disclosure objectives and requirements.
36. The Board should analyse and consider the information collected and analysed from this and previous steps to perform a cost / benefit analysis. In particular, decisions would need to be made about:
 - (a) which disclosure information is essential and therefore must be included in final disclosure objectives and requirements (this includes consideration of which disclosures are needed to support recognition and measurement requirements and the information needs of users of financial statements); and

- (b) what the cost of the requested disclosures are weighed against the benefits that primary users would gain from these disclosures.
37. Staff consider that this step is integral in forming the basis of disclosure objectives and requirements for the final due process documents.

Step five—understand and document the effects of the proposed disclosure objectives and requirements

38. The final step in the proposed approach focuses on documenting the Board’s understanding of the effects of proposed disclosure objectives and requirements.
39. This step will most likely occur during the development of an Effects Analysis to be included in the final documents for publication. The purpose of this step will be to communicate to stakeholders:
- (a) the key benefits of the disclosure objectives and requirements—this is likely to focus on the information benefits to users of financial statements;
 - (b) the practical effect and costs of the disclosure objectives and requirements for preparers of financial statements; and
 - (c) any other effects, such as any expected regulatory or electronic reporting consequences of the disclosure objectives and requirements.
40. We expect that the work performed in Steps One to Four should provide most of the information needed to develop an effects analysis, and that this stage may be largely focused on documentation. However, this stage might identify areas where the project team want to consider performing additional research or outreach activities to support the effects analysis.

Staff recommendation and question for the Board**Question 2**

Does the Board agree with the staff recommendation that the Board should use the five-step approach to developing disclosure objectives and requirements, being:

- (a) step one—understand the existing issue (paragraphs 20-22);
- (b) step two—understand what stakeholders want and why (paragraphs 23-28);
- (c) step three—understand what disclosures would be required to support proposed recognition and measurement requirements (paragraphs 29-33);
- (d) step four—perform a cost / benefit analysis (paragraphs 34-37); and
- (e) step five—understand and document the effects of the proposed disclosure objectives and requirements (paragraphs 38-40)?

Appendix A—Summarised approach to developing disclosure objectives and requirements

