

March 2019

IFRS[®] Standards
Project Summary

Disclosure Initiative—Principles of Disclosure

Principles of Disclosure

The International Accounting Standards Board's research programme

The International Accounting Standards Board (Board) conducts research projects to gather evidence so that it can assess whether a financial reporting problem exists; whether any identified problem is sufficiently important that standard-setting is required; and whether a feasible solution to such a problem can be found.

This Project Summary

This Project Summary has been compiled by the IFRS Foundation (Foundation) staff and has not been approved by the Board. It summarises work performed and conclusions reached in the Principles of Disclosure research project. This Project Summary does not form part of IFRS Standards.

Contents of this Project Summary

- At a glance (page 3)
- Background to the Disclosure Initiative (page 4)
- Consultation (page 5)
- Research findings and conclusions—overview (page 6)
- Response to the disclosure problem (pages 7–10)
- Technology and digital reporting (page 11)
- Other topics considered in the Discussion Paper (page 12)
- Appendix A—Discussion Paper topics (page 13–15)

For more information

More information about the project is available on the IFRS Foundation website at <https://www.ifrs.org/projects/2019/principles-of-disclosure/>

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At a glance

The disclosure problem

The Board received feedback¹ that stakeholders have three main concerns about information disclosed in financial statements, collectively referred to as the ‘disclosure problem’:

- not enough relevant information;
- too much irrelevant information; and
- ineffective communication of the information provided.

This feedback led the Board to establish the Disclosure Initiative, a broad-based initiative exploring how to make disclosures more effective in financial statements (see page 4).

The research project on Principles of Disclosure was one part of the Disclosure Initiative. The Board carried out the project to consider how the Board could help address the disclosure problem.

Discussion Paper

In March 2017, the Board issued a Discussion Paper: *Disclosure Initiative—Principles of Disclosure* (‘Discussion Paper’) to obtain feedback on possible approaches to address the disclosure problem.

Summary of findings

The research project showed that all the different activities considered in the Discussion Paper could be of benefit to some stakeholders. However, respondents asked the Board to identify those activities that would be *most* effective in helping to address the disclosure problem and narrow the focus of the project accordingly.

For a chapter-by-chapter summary of each activity considered in the Discussion Paper, please see the Appendix.

Almost all respondents to the Discussion Paper said that the way disclosure requirements are developed and drafted in IFRS Standards is one contributor to the disclosure problem.

Feedback and conclusion

From March to July 2018, the Board reviewed the findings of the project and feedback from stakeholders.

After reviewing the evidence gathered, the Board decided that improving the way disclosure requirements are developed and drafted in IFRS Standards is the most effective way it can help to address the disclosure problem. Consequently, the Board decided to prioritise its **Targeted Standards-level Review of Disclosures** project.

The Board also decided to address research findings about accounting policy disclosures, the implications of technology on financial reporting and the use of performance measures in financial statements. The Board decided not to pursue the remaining topics in the Discussion Paper at this time. Consequently, this Project Summary closes the Principles of Disclosure research project.

For more information

Information about the research project is available on the IFRS Foundation’s website.²

¹ See feedback from the Board’s [2013 discussion forum on financial reporting disclosure](#). The Board used this forum to foster dialogue among stakeholders about how to make disclosures more effective.

² <https://www.ifrs.org/projects/2019/principles-of-disclosure/>

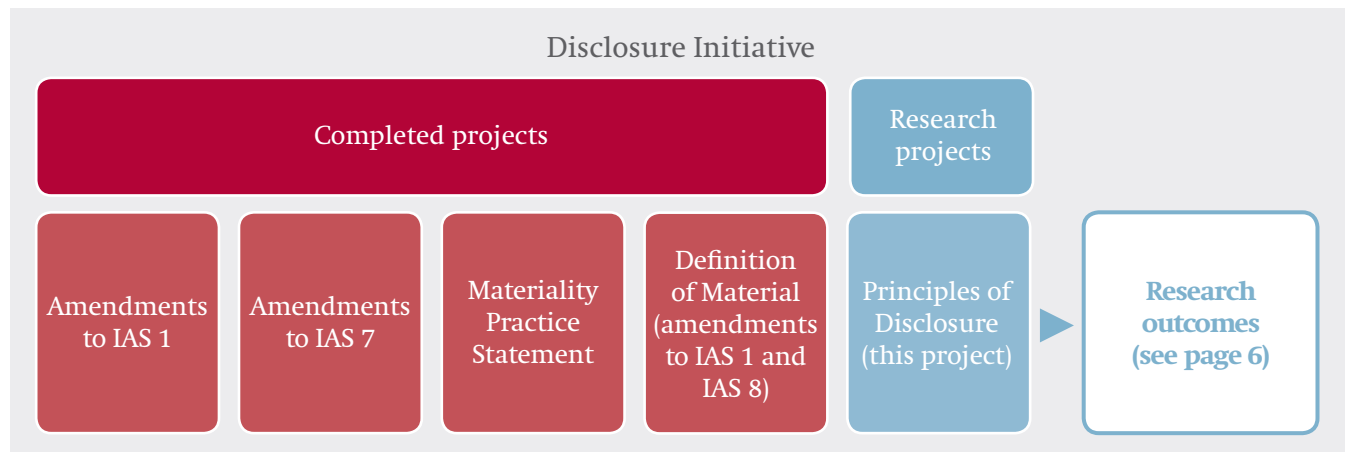
Background to the Disclosure Initiative

The Principles of Disclosure research project was part of the Board's Disclosure Initiative

The Board launched its Disclosure Initiative in 2013 to respond to feedback that there is a need to improve the effectiveness of disclosures in financial statements. Feedback demonstrated that the disclosure problem is multifaceted and will require the input of many stakeholders if solutions are to be found.

The Board has already completed four projects as part of the Disclosure Initiative. These projects made targeted improvements to IFRS Standards and guidance, providing tools to help preparers and other stakeholders improve communication in financial statements. They are:

- **Amendments to IAS 1:** In December 2014, the Board published amendments to IAS 1 *Presentation of Financial Statements* to remove barriers to the exercise of judgement. These amendments became effective for annual periods beginning on or after 1 January 2016.



- **Amendments to IAS 7:** In January 2016, the Board published amendments to IAS 7 *Statement of Cash Flows* to improve disclosure of changes in liabilities from financing activities. These amendments became effective for annual periods beginning on or after 1 January 2017.
- **Materiality Practice Statement:** The Board published *IFRS Practice Statement 2—Making Materiality Judgements* in September 2017. The Materiality Practice Statement contains non-mandatory guidance to help entities make materiality judgements when preparing IFRS general purpose financial statements.

- **Definition of Material (amendments to IAS 1 and IAS 8):** The Board published these amendments in October 2018. The amendments refine the definition of material and clarify its application. The amendments will become effective for annual periods beginning on or after 1 January 2020.

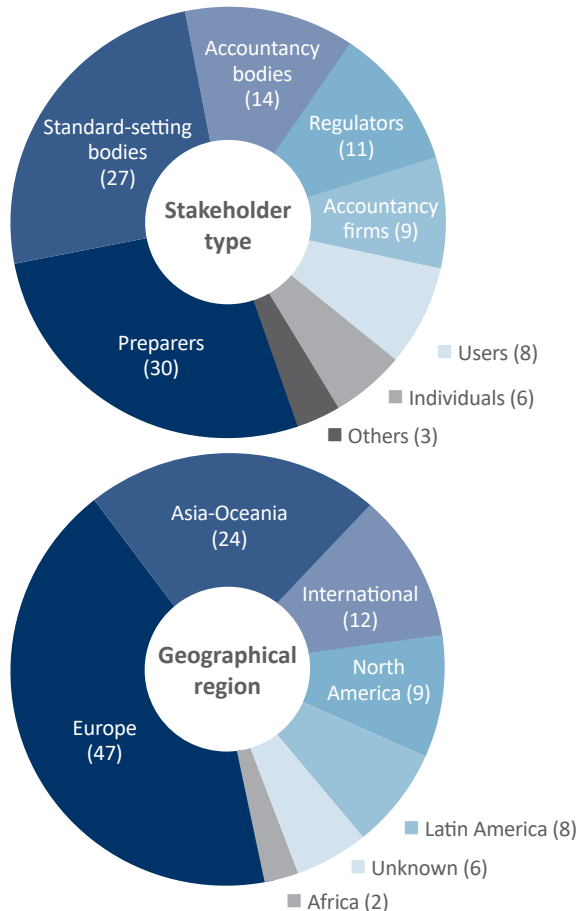
In October 2017, the IFRS Foundation also published [*Better Communication in Financial Reporting—Making disclosures more meaningful*](#). This report used case studies to illustrate how some companies have already improved communication in their financial statements (see page 9).

Consultation

The Board used the following sources of feedback in its research:

Comment letters

The Board received 108 comment letters:



Meetings with users of financial statements

From April to October 2017, Board members and staff talked about the Discussion Paper with almost 200 investors and analysts, including:

- rating agency analysts and both buy-side and sell-side investment professionals;
- the Capital Markets Advisory Committee (see box below);
- five firms in the Board's Investors in Financial Reporting programme;
- user panels arranged in collaboration with national standard-setters in Europe, Canada and Japan; and
- users of financial statements in round table meetings with preparers.

The investors and analysts included in these discussions monitor companies based in Africa, Asia-Oceania, Europe, Latin America and North America.

Further information about consultative bodies is available on the IFRS Foundation's website at: <https://www.ifrs.org/about-us/consultative-bodies/>

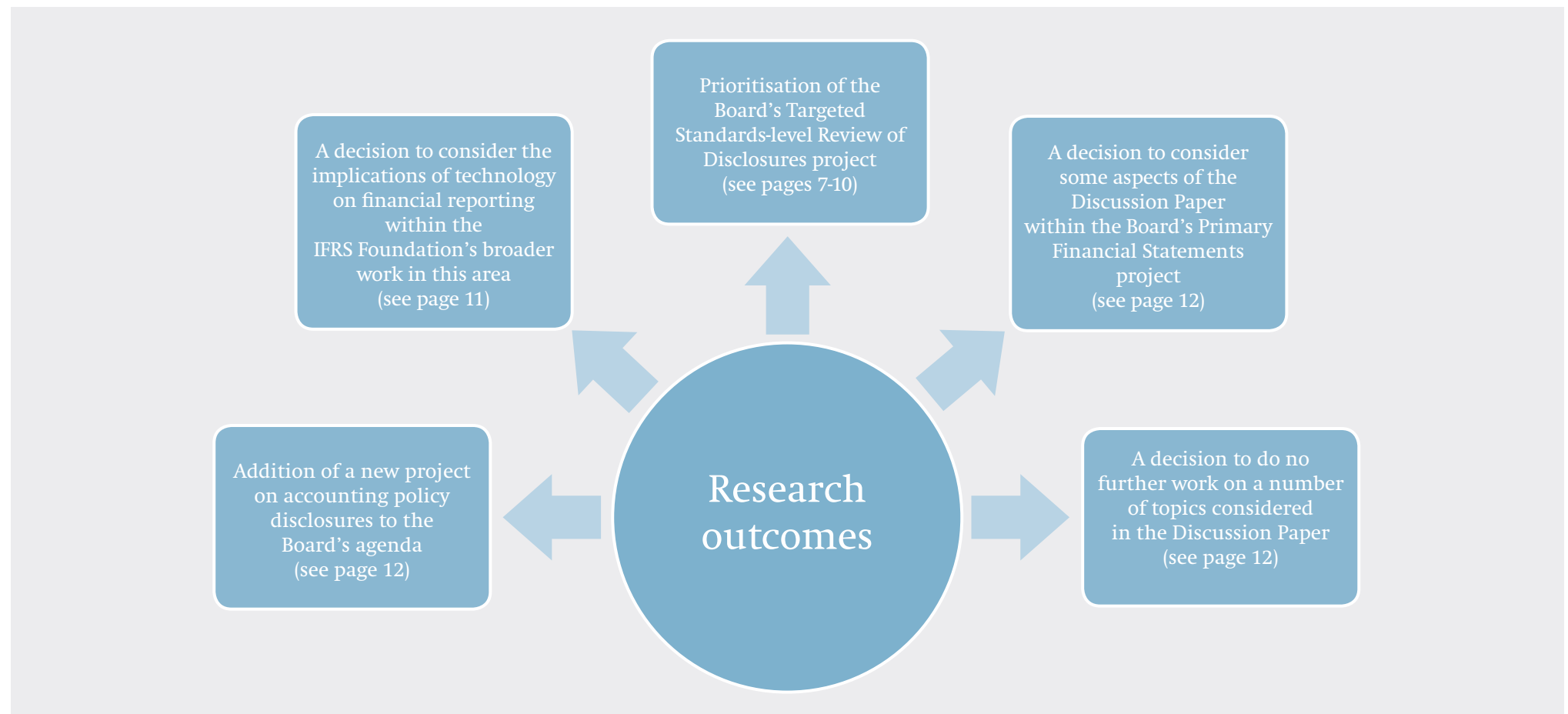
Other consultations

Board members and staff also:

- held over 30 meetings with stakeholders other than users of financial statements. The participants included:
 - preparers, accounting firms, standard-setters, regulators and academics; and
 - stakeholders based in Asia-Oceania, Europe, Latin America and North America.
- held public meetings with the Global Preparer Forum, the Accounting Standards Advisory Forum, the IFRS Advisory Council and the IFRS Taxonomy Consultative Group (see box below); and
- consulted groups of national standard-setters, regulators and auditing standard-setters about aspects of the Discussion Paper.

Research findings and conclusions—overview

The main outcomes of the research project were:



Response to the disclosure problem—overview

The Discussion Paper considered a number of activities the Board might undertake to help address the disclosure problem. Respondents also provided some additional suggestions.

When deciding how to respond to the research findings, the Board considered whether each possible activity would:

- help improve the effectiveness of disclosures for the primary users of financial statements;
- help entities apply better judgement about what information to disclose and how to communicate that information; and
- be responsive to feedback about the ways in which IFRS Standards contribute to the disclosure problem.

The table on pages 8–10 summarises each activity considered by the Board and the Board’s research findings.

Targeted Standards-level Review of Disclosures

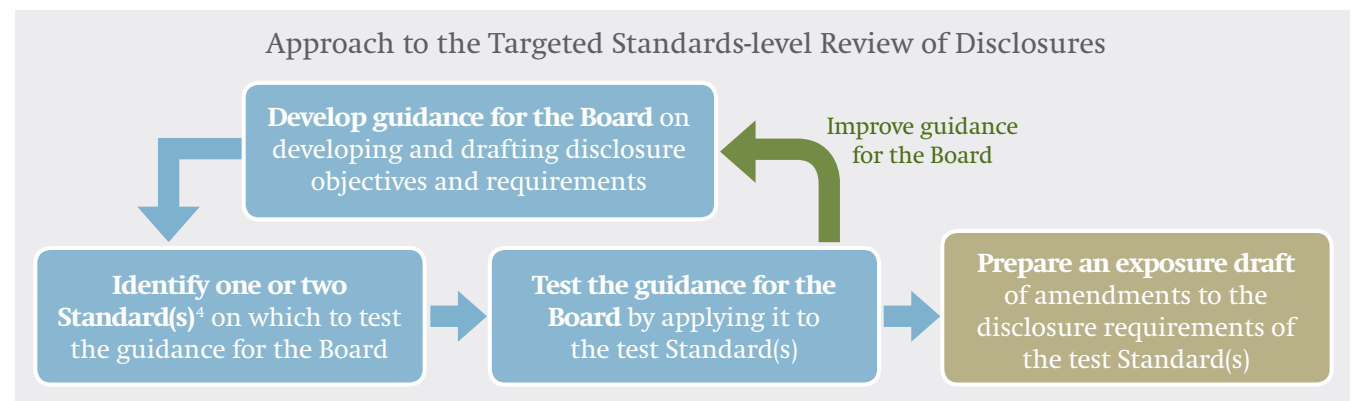
Research demonstrated that improving the way disclosure requirements are developed and drafted in IFRS Standards would be an effective way for the Board to help address the disclosure problem.

Consequently, the Board decided to prioritise this work and, in March 2018, added to its agenda a maintenance project—Targeted Standards-level Review of Disclosures.³

This project will involve:

- developing guidance designed to improve the way the Board develops disclosure objectives and requirements; and
- testing that guidance by applying it to one or two IFRS Standards.⁴

The Board noted that addressing the disclosure problem would be an iterative process involving many stakeholders. Consequently, the Board’s approach to the Targeted Standards-level Review of Disclosures is designed to be iterative and flexible.



³ <https://www.ifrs.org/projects/work-plan/standards-level-review-of-disclosures/>

⁴ In July 2018, the Board decided to test the guidance by applying it to IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement* <https://www.ifrs.org/-/media/feature/meetings/2018/july/iasb/ap11d-di.pdf>

Response to the disclosure problem—findings and conclusions

Activity considered in the Discussion Paper	Respondents' comments, other research findings and conclusions
<p>Develop guidance for the Board on developing disclosure objectives and requirements</p> <p>The Discussion Paper did not specifically discuss developing guidance for the Board on developing disclosure objectives and requirements. However, the Discussion Paper suggested ways in which the Board could improve how it develops and drafts disclosure objectives and requirements.</p>	<p>Almost all respondents to the Discussion Paper suggested that the Board could contribute to solving the disclosure problem if it improved the way in which it develops and drafts disclosure objectives and requirements in IFRS Standards. For example, stakeholders said that a lack of specific disclosure objectives, overly prescriptive language and unclear or duplicate requirements in some IFRS Standards contribute to the problem.</p> <p>The Board concluded that developing guidance that it could use would be an effective way to help address this element of the disclosure problem. Such guidance would cover both:</p> <ul style="list-style-type: none"> • how to develop disclosure objectives and requirements—for example, how to best use stakeholder outreach to develop effective disclosure objectives; and • how to draft disclosure objectives and requirements.
<p>Develop centralised disclosure objectives</p> <p>Many stakeholders indicated that a lack of clear and specific disclosure objectives in IFRS Standards contributes to the disclosure problem. The Discussion Paper considered whether the Board should develop a central set of disclosure objectives (centralised disclosure objectives) to provide a basis for developing more unified disclosure objectives and requirements in the Standards. Centralised disclosure objectives could help to address the disclosure problem by enabling stakeholders to better understand the disclosure requirements in IFRS Standards.</p>	<p>Some respondents to the Discussion Paper questioned whether it is possible for any centralised disclosure objectives to be specific enough to have a practical effect on the disclosure problem.</p> <p>The Board concluded that developing specific Standards-level objectives would be more effective than developing centralised disclosure objectives. Consequently, the Board decided not to develop centralised disclosure objectives.</p>

continued ...

Response to the disclosure problem—findings and conclusions continued ...

Activity considered in the Discussion Paper	Respondents' comments, other research findings and conclusions
<p>Develop principles of effective communication</p> <p>The Discussion Paper described principles of effective communication that could help entities apply better judgement about financial statement disclosure. The seven principles considered in the Discussion Paper said that information in financial statements should be:</p> <ul style="list-style-type: none"> • entity-specific; • described as simply and directly as possible; • organised in a way that highlights important matters; • linked, when relevant, to other information; • not duplicated unnecessarily; • provided in a way that optimises comparability; and • provided in a format that is appropriate. 	<p>Many respondents thought that principles of effective communication would be somewhat helpful to stakeholders. However, many also thought that any principles would be too generic or high level to make any real practical difference to the disclosure problem. Respondents also reported that entities in some jurisdictions have already improved the communication in their IFRS financial statements over recent years applying existing requirements and guidance.</p> <p>In October 2017, the IFRS Foundation published Better Communication in Financial Reporting—Making disclosures more meaningful. This report used case studies to illustrate how some companies have improved communication in their IFRS financial statements using principles similar to those considered in the Discussion Paper. The Board developed the report to illustrate the principles helping companies better communicate information in financial statements. The Board concluded that further developing the principles is not the most effective way it can help to address the disclosure problem at this time.</p>
<p>Develop educational materials</p> <p>A few respondents to the Discussion Paper suggested that the Board should consider developing educational materials in addition to, or instead of, any standard-setting activities. Such materials might include webinars, articles, or other types of non-mandatory guidance.</p>	<p>The Board has already prepared non-mandatory guidance and other educational materials as part of the Disclosure Initiative (see page 4) and will continue to develop educational material when it is helpful to do so. However, the Board observed that developing new educational material may not be the most effective way to address the disclosure problem at this time and decided to prioritise other activities.</p>

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Response to the disclosure problem—findings and conclusions continued ...

Activity considered in the Discussion Paper	Respondents' comments, other research findings and conclusions
<p>Standards-level review of disclosure requirements</p> <p>Many respondents said that, in their view, reviewing the disclosure requirements in IFRS Standards would be the most effective way that the Board could help to address the disclosure problem.</p> <p>In the light of feedback received, the Board considered both a comprehensive and a targeted review.</p> <ul style="list-style-type: none"> • A <i>comprehensive</i> review would involve reviewing the disclosure requirements in all IFRS Standards. • A <i>targeted</i> review would involve selecting one or two Standards to use as test cases to explore and improve the way the Board develops and drafts disclosure objectives and requirements. 	<p>Many respondents favoured a comprehensive review. These respondents thought such a review would be the most effective way to fully address feedback about how IFRS Standards contribute to the disclosure problem. However, the Board observed that a comprehensive Standards-level review would take a significant amount of time to complete and would be unlikely to provide improvements for stakeholders within the short or medium term. The Board also noted that such a review could give rise to changes in recently issued Standards and that, in most cases, such changes would be unlikely to deliver benefits that exceed costs.</p> <p>The Board concluded that a targeted Standards-level review would enable it to respond to the disclosure problem in an iterative and flexible way. Such a review would allow the Board to:</p> <ul style="list-style-type: none"> • test and improve the guidance for the Board on developing disclosure objectives and requirements (see pages 7 and 8); • improve the disclosure requirements in one or two identified test Standards within a reasonable time frame; and • retain flexibility to contribute in the best way possible to the iterative process of addressing the disclosure problem.

Technology and digital reporting

Implications of technology

The implications of technology and digital reporting on financial communication were not specifically considered in the Discussion Paper. Nevertheless, the Board received a lot of feedback on this topic. Respondents indicated that the Board should consider how changes in technology might affect preparation and consumption of information in financial statements.

In the light of this feedback, the Board researched this area further, including consulting with its Accounting Standards Advisory Forum and its IFRS Taxonomy Consultative Group. Research indicated two broad areas that the Board should consider:

- the effect of technology on disclosure in financial statements; and
- the broader implications of technology for communication of financial information.

Disclosure in financial statements

Research demonstrated that technology is providing new ways for companies to interact and communicate with their investors. However, the need to access information contained in financial statements through traditional sources such as paper or PDF documents is likely to remain, at least in the medium term.

Research also highlighted:

- the importance of ensuring disclosure requirements in IFRS Standards are **technology neutral**—that is they can be applied effectively in both paper-based and digital reporting environments;
- the rapidly moving nature of digital reporting; and
- that Board activity in this area needs to be developed in an iterative and flexible way.

Considering the research findings, the Board decided that the guidance for developing disclosure objectives and requirements should emphasise the need for technology neutral disclosure requirements.

Broader implications

Research highlighted that technology and digital reporting are expected to have a broader influence over financial reporting than merely altering the way companies disclose information in financial statements.

Separately from the Principles of Disclosure research project, the IFRS Foundation is undertaking activities to consider how technological developments affect the Board and the IFRS Foundation's work.

These activities are in four broad areas:

- accounting;
- consumption of financial reports;
- standard-setting process; and
- digital engagement.

The Board decided to incorporate feedback about the broader implications of technology into those activities. Information about this work is available on the IFRS Foundation's website.⁵

⁵ See <https://www.ifrs.org/news-and-events/2018/11/the-ifrs-foundation-technology-initiative/>

Other topics considered in the Discussion Paper

Accounting policy disclosures

Stakeholders expressed support for the Board developing guidance to help preparers decide which accounting policies to disclose. Most users of financial statements commented that accounting policy disclosures are seldom useful and could be improved.

Users said that accounting policy disclosures are useful only when they provide insight into how an entity has exercised judgement in selecting and applying accounting policies.

Considering the research, the Board decided to add a project to its agenda to develop guidance and examples intended to help entities apply materiality judgements to accounting policy disclosure.⁶

Primary financial statements

Many respondents indicated that a number of topics considered in the Discussion Paper were more relevant to the Board's Primary Financial Statements project. Furthermore, respondents expressed some concern about similar topics being addressed across different Board projects.

The Board decided to consider the following topics from the Discussion Paper as part of the Primary Financial Statements project:⁷

- roles of the primary financial statements and of the notes;
- presentation of EBIT and EBITDA;
- presentation of unusual or infrequently occurring items; and
- fair presentation of performance measures.

Topics not further pursued

Research indicated that a number of activities considered in the Discussion Paper would have little effect on the disclosure problem and that the Board's time would be better spent elsewhere.

The Board decided not to further develop guidance or requirements relating to:

- the location of accounting policy disclosures;
- the use of formatting in the financial statements; and
- the placement of 'IFRS information'⁸ outside financial statements and 'non-IFRS information' inside financial statements.

⁶ See <https://www.ifrs.org/projects/work-plan/accounting-policies/>

⁷ See <https://www.ifrs.org/projects/work-plan/primary-financial-statements/>

⁸ The Discussion Paper defined 'IFRS information' as information necessary to comply with IFRS Standards

Appendix—Discussion Paper topics

The Discussion Paper was split into eight sections, each of which considered potential Board activities to help address the disclosure problem.

Discussion Paper topic	Board response
Section 1—Overview of the ‘disclosure problem’ and the objective of this project	
The need for principles of disclosure	The Board prioritised those topics which research suggested would be most effective in addressing the disclosure problem (pages 7, 8 and 10).
The objective of this project	
Section 2—Principles of effective communication	
Principles of effective communication	The Board decided not to develop standalone principles of effective communication further at this time.
Inclusion of principles in a general disclosure standard or in non-mandatory guidance	The report <i>Better Communication in Financial Reporting—Making disclosures more meaningful</i> (October 2017) illustrated, using case studies, how the principles of effective communication could be used to improve disclosures (page 9).
Provision of guidance on formatting	The Board decided not to pursue this topic further at this time (page 12).
Section 3—Roles of the primary financial statements and the notes	
Use of the term ‘primary financial statements’	The Board will consider feedback received on these topics further as part of its Primary Financial Statements Project (page 12).
The role of the primary financial statements	
The implications of the role of the primary financial statements	
The role and content of the notes	
Use of the terms ‘present’ and ‘disclose’	The Board decided not to amend the way these terms are used in issued Standards. However, feedback on this topic will be considered within the guidance for the Board to use when developing disclosure objectives and requirements as part of the Board’s Targeted Standards-level Review of Disclosures project (pages 7 and 10).

continued ...

Appendix—Discussion Paper topics continued ...

Discussion Paper topic	Board response
Section 4—Location of information	
Including information necessary to comply with IFRS Standards outside the financial statements	The Board decided not to further pursue these topics at this time (page 12).
Providing information identified as non-IFRS within the financial statements	
Section 5— Use of performance measures in the financial statements	
Performance measures that are line items or subtotals in the statement(s) of financial performance	The Board will consider feedback on these topics further as part of its Primary Financial Statements project (page 12).
Presentation of EBIT and EBITDA	
Depiction of unusual or infrequently occurring items in the statement(s) of financial performance	
General requirements for all performance measures in the financial statements	
Section 6—Disclosure of accounting policies	
Which information about a significant accounting policy should be disclosed	The Board added the <i>Disclosure Initiative—Accounting Policies</i> project to its agenda (page 12).
Where accounting policy disclosures should be located in the financial statements	The Board decided not to pursue these topics further at this time (page 12).
Location of accounting policy disclosures	
Location of significant judgements and assumptions disclosures	

continued ...

Appendix—Discussion Paper topics continued ...

Discussion Paper topic	Board response
Section 7—Centralised disclosure objectives	
Developing centralised disclosure objectives	The Board decided not to pursue these topics further at this time. Instead, the Board decided to take steps to improve the way it develops and drafts disclosure objectives at an individual Standards level (page 8).
Method A—focusing on types of information	
Method B—focusing on the entity’s activities	
Hybrids of methods A and B	
Considering a single Standard, or a set of Standards, for disclosures	
Section 8—New Zealand Accounting Standards Board (NZASB) staff’s approach to drafting disclosure requirements in IFRS Standards	
The NZASB staff’s approach	The Board will consider feedback received on the NZASB staff’s approach within its Disclosure Initiative—Targeted Standards-level Review of Disclosures project (pages 7 and 10).
Disclosure objectives	
Two tiers of disclosure requirements	
Emphasising the use of judgement	
Less prescriptive language	
The way disclosures are drafted in IFRS Standards	



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