ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

25 September 2017

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Hans

RESPONSE TO DISCUSSION PAPER ON DISCLOSURE INITIATIVE – PRINCIPLES OF DISCLOSURE

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Discussion Paper (DP) on Disclosure Initiative – Principles of Disclosure issued by the International Accounting Standards Board (the IASB or the Board) in March 2017.

General

We are a firm supporter of the IASB's initiatives under the Disclosure Initiative to support better communications in financial reporting. We see the potential in the Disclosure Initiative not only to improve the presentation and disclosure requirements in IFRS Standards, but to encourage positive behavioural changes across the spectrum of stakeholder groups. The IASB and its stakeholders alike have an interest in ensuring that financial statements remain relevant in an ever-changing and dynamic global landscape.

Principles of Disclosure project and standard-level review of disclosures

In general, we agree that the IASB is taking the right direction in its Principles of Disclosure project. In our view, the IASB's development of disclosure principles in a general disclosure standard, and subsequent standard-level review of disclosures, have the potential to encourage more entity-specific disclosures of relevant information. Indeed, the IASB should place more emphasis on standard-level review of disclosures, which would have a more direct impact on the quality of disclosures.

Nevertheless, we note that the IASB's discussions did not include certain important topics and/or pervasive concepts.

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Foremost, the DP contains little discussion on relevant disclosures that are typically missing in financial statements. In practice, financial statements typically do not contain disclosures beyond those specified in IFRS Standards, notwithstanding that IAS 1 *Presentation of Financial Statements* requires the provision of additional information if it is relevant to an understanding of financial statements. This is primarily an outcome of the prevalence of a checklist approach and the difficulty in applying judgement. The IASB should consider a more holistic approach for its Principles of Disclosure project, including broader discussions on relevant disclosures that are typically missing in financial statements and that could be addressed in a general disclosure standard.

Similarly, the IASB's discussions on the disclosure problem and the principles of disclosure would not be comprehensive without the consideration of technology. Technology has broad implications, ranging from how users would locate, extract, analyse and compare information to how entities would prepare, present and communicate information. The IASB should give due consideration to the implications of technology in developing principles of disclosure that are robust and that would remain relevant for years to come even with technological advancement.

Location of information

We appreciate allowing entities to apply judgement in providing IFRS information outside financial statements based on particular facts and circumstances. That said, the crux of the issue is what and how much IFRS information can be provided outside financial statements, while preserving the understandability of financial statements and the faithful representation of information as a whole. Any attempt to address this issue cannot avoid discussions about the boundary of the document(s) within which IFRS information could be provided. These matters require significant judgement and/or have potential audit and regulatory implications.

We are against the inclusion in financial statements of information that is inconsistent with IFRS Standards (hereinafter referred to as IFRS-inconsistent information), unless specifically required by law or regulation. We are concerned that IFRS-inconsistent information could undermine IFRS information and might not be neutral, while causing confusion and increasing clutter.

Use of performance measures in financial statements

We are supportive of the IASB's *Primary Financial Statements* project, which seeks to improve the reporting of financial performance in financial statements, amongst other objectives. It follows that we see more merits in the IASB taking a more holistic approach in addressing this topic, such as by developing broad-based guidance on the separate presentation of items with certain characteristics, and the adjustments to line items required in IFRS Standards (including the resulting subtotals), under the various approaches to classification of expenses. We further consider it important that any guidance developed in a general disclosure standard on this topic should not pre-empt the IASB's decisions on its *Primary Financial Statements* project.

Our comments on the specific questions in the DP are as follows:

Question 1
Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes. (a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem? (b) Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

Question 2
Sections 2–7 discuss specific disclosure issues that have been identified by the Board and provide the Board's preliminary views on how to address these issues. Are there any other disclosure issues that the Board has not identified in this DP that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?

Question 15
Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4). Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives. Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.

We agree with the IASB's description of the disclosure problem and its causes. Broadly, the identified causes appear to fall within one or more of the following categories: (i) problems with IFRS Standards; (ii) difficulties in applying judgement; (iii) behavioural issues; and (iv) expectation gaps.

While we certainly welcome the IASB's initiatives to address the disclosure problem, we recognise that the IASB cannot achieve this objective on its own. The IASB can seek to address the disclosure problem to the extent that the causes relate to (i) – (ii), but is considerably constrained insofar as the causes relate to (iii) – (iv).

In particular, the IASB's development of disclosure principles in a general disclosure standard, and subsequent standard-level review of disclosures, have the potential to encourage more entity-specific disclosures of relevant information. Indeed, the IASB should place more emphasis on standard-level review of disclosures, which would have a more direct impact on the quality of disclosures. However, the potential is constrained, unless there are behavioural changes by all relevant parties, ranging from the preparers and users of financial statements to the auditors and regulators for financial reporting.

Similarly, the IASB's initiatives cannot overcome unrealistic expectations of financial statements. Financial statements cannot possibly meet all the information needs of every individual user. Financial statements represent only one of the important sources of information necessary for making decisions about providing resources to an entity. Moreover, users have different level of knowledge and conflicting information needs. For example, some professional investors favour extensive disclosures as a source of input to proprietary valuation models, which could contribute to increasing disclosures in financial statements. That said, nothing should prevent the IASB from developing IFRS Standards that seek to provide information that will meet the information needs of the maximum number of users, which is consistent with the *Conceptual Framework for Financial Reporting* (the Conceptual Framework).

Moreover, there is a potential misconception about how the problem of disclosure overload ought to be addressed. Disclosures provide the context for reported figures and none would be sufficient for decision making without the other. While we acknowledge that some disclosure requirements may be redundant or important only in limited circumstances, the challenge is not about reducing disclosures, but to provide relevant disclosures that are currently missing and to improve the communication of relevant disclosures.

Matters requiring due consideration

Despite the foregoing, we observe that the DP contains little discussion on relevant disclosures that are typically missing in financial statements. We appreciate that IFRS Standards already require additional disclosures when compliance with specific IFRS requirements is insufficient to enable users to understand the impact of particular transactions, other events and conditions on an entity's financial position and performance. However, with the prevalence of a checklist approach and the difficulty in applying judgement, financial statements typically do not contain disclosures beyond those specified in IFRS Standards. For example, financial statements typically provide information about *what* has changed, but little information about *why* that change occurred. Much of the latter information is currently provided outside financial statements, such as the annual report or earnings announcement. It warrants further discussions as to why such information, which falls within the boundary of general purpose financial reports, ought not to be disclosed in financial statements.

Furthermore, the IASB's discussions on the disclosure problem and the principles of disclosure would not be comprehensive without the consideration of technology. For example, the use of IFRS Taxonomy for electronic reporting of information could have reinforced a mindset favouring a checklist approach, or constrained the extent of which presentation and disclosures could be customised based on entity-specific facts and circumstances. The proliferation of electronic financial statements could reduce the relevancy of discussions on the location of IFRS/non-IFRS information and accounting policies, or the boundary of the other documents.

The evolution of technology, such as data extraction tools, could reduce the pressure on improving disclosure effectiveness in terms of the volume, location and format of disclosures.

IASB's current approach to drafting disclosure requirements in IFRS Standards

We acknowledge the tension in the stakeholders' feedback as described in Question 15. There is also an inherent trade-off between less prescriptive guidance, sufficient guidance to aid the application of judgement, and optimising comparability across entities.

Furthermore, we observe a lack of consistency and coherence in the existing disclosure objectives and requirements, which were developed over time and generally in isolation from other IFRS Standards. While the IASB should consciously consider consistency and coherence in developing disclosure objectives and requirements, it cannot realistically ensure such consistency and coherence as business transactions, information needs and technology change over time, and which necessitates the consideration for potential interactions with the underlying recognition and measurement requirements across IFRS Standards. On this note, the *Principles of Disclosure* project presents an opportunity to the IASB to comprehensively review the existing disclosure objectives and requirements in the light of new principles and objectives of effective disclosures.

Following from our above comments, we provide the following recommendations to the IASB:

Issues with existing disclosure requirements

The IASB should place more emphasis on standard-level review of disclosures, by critically evaluating the existing disclosure requirements to:

(a) Identify additional relevant disclosures: The IASB should broaden discussions on, for example, (i) whether there is any relevant information that is typically missing and is within the scope of a general disclosure standard, and (ii) whether such information can be located outside financial statements to reduce duplication of information.

(b) Remove redundant disclosures and improve articulation of why and when information should be disclosed: The IASB should consider, for example, specifying standard-level disclosure objectives, adopting a two-tier approach to disclosures, and explaining for second-tier disclosures (i) the purpose of disclosures, (ii) how disclosures would contribute to standard-level disclosure objectives, and (iii) the circumstances in which disclosures should be made.

(c) Improve consistency and coherence of requirements across IFRS Standards: The IASB should consider, for example, developing centralised disclosure objectives, aligning disclosure requirements for similar or related topics, and developing disclosures that reflect the relationships between items or transactions.

(d) Improve the drafting of requirements: The IASB should consider, for example, emphasising the application of judgment and using less prescriptive wordings.

Behavioural issues

The IASB should work closely with the relevant international bodies to collectively promote positive behavioural changes among the various parties involved in financial reporting.

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Notably, international bodies, such as IOSCO, IFIAR, IFAC, should have an interest in ensuring that financial statements continue to serve the needs of global capital markets and capital providers, based on a common set of understanding and expectations. We encourage the IASB to continue deepening investor engagement, and through investor insights and education, to develop disclosure requirements that would better serve the needs of the investor community.

In addition, the IASB should play an active role in the activities of international bodies on wider corporate reporting. The IASB has an acute interest in maintaining the relevance of IFRS Standards within such a context, for example, in managing the risk of IFRS information being undermined by related IFRS-inconsistent information that is presented outside financial statements to an entity's own advantage. The IASB could advance its cause to the relevant international bodies, with the aim of influencing the development of comprehensive framework(s) for different aspects of wider corporate reporting to promote discipline in the presentation of financial information outside financial statements.

Impact of technology

The IASB should include broader discussions on the implications of technology on the disclosure problem and the principles of disclosure. This would help the IASB develop principles of disclosure that are robust and that would remain relevant for years to come even with technological advancement.

Question 3
The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance. The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22. (a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not? (b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why? (c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance? (d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not? If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.

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Principles of effective communication

We are supportive of the IASB developing principles of effective communication, which would reinforce the qualitative characteristics of useful information among entities. Subject to our comments below, we generally agree with the principles of effective communication as described in paragraph 2.6, which is consistent with our view on the Exposure Draft on the Conceptual Framework.

We recommend that the IASB should address the following comments in developing the principles of effective communication:

(a) The principles of effective communication should be expanded to include the following principles: information provided should be (i) material and (ii) neutral. The concepts of material and neutral represent an aspect of relevance and faithful representation, respectively, being the fundamental qualitative characteristics of useful information in the Conceptual Framework. Indeed, we consider these principles, and the principle of entity-specific, to be more important than the other principles, which appear related to the enhancing qualitative characteristics of comparability and understandability.

(b) There is an inherent trade-off between the need for information to be entity-specific and the need to optimise comparability among entities. We consider the principles of entity-specific and optimising comparability across reporting periods to be more important for effective communication. In particular, the application of judgment inevitably leads to a certain degree of reduced comparability among entities. However, comparability among entities is not necessarily compromised, if information can be located easily and is accompanied by explanations. Indeed, we have been informed that users such as analysts place high importance on trend analysis and scrutinise changes in how information is provided across reporting periods, but are able to routinely make adjustments based on available information in and outside financial statements to facilitate comparison among entities.

(c) The principle of optimising comparability among entities could be interpreted as requiring an entity to search extensively for prevailing practices to have an understanding of how other entities are providing information in financial statements, which we doubt reflects the IASB's intention.

(d) The principle of highlighting important matters gives the impression that some material information is more important than other material information. This implies that the terms 'important' and 'material' have different thresholds, which necessitates another layer of assessment. If this reflects the IASB's intention, further description and guidance on important matters should be developed to aid entities perform the assessment.

Form of guidance

We are supportive of the IASB including the principles of effective communication in a general disclosure standard. This would give the principles more authority and to allow them to influence behavioural changes.

On the other hand, we support including the guidance on the use of formatting in non-mandatory guidance, in the form of illustrative examples or implementation guidance accompanying a general disclosure standard. We do not consider such guidance to be necessary for an understanding of the principles of effective communication, but rather supplementary in nature to illustrate how those principles could be applied and to assist entities apply judgment in determining the most appropriate format for particular facts and circumstances. The inclusion of such guidance in the accompanying illustrative examples or implementation guidance would subject the guidance to the IASB's full due process and allow the guidance to remain easily accessible.

Question 4
The Board's preliminary views are that a general disclosure standard should: • specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows; • describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24; • describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanatory and supplementary information, as referred to in paragraphs 3.26–3.27; and • include the guidance on the content of the notes proposed in paragraphs 7.3–7.7 of the *Conceptual Framework* Exposure Draft, as described in paragraph 3.7. In addition, the Board's preliminary views are that: • it should not prescribe the meaning of 'present' as presented in the primary financial statements and the meaning of 'disclose' as disclosed in the notes; and • if it uses the terms 'present' and 'disclose' when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either 'in the primary financial statements' or 'in the notes'. Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

Terminology for, and components of, the primary financial statements

We agree with the IASB's preliminary view, and its rationale in paragraph 3.16, on the use of the term 'primary financial statements' to describe a set of statements comprising: (i) statement of financial position; (ii) statement of financial performance; (iii) statement of changes in equity; and (iv) statement of cash flows. In addition, we consider the explanation in paragraph 3.17 to have the potential to dispel the misperception that the term 'primary' would render the notes less important. That said, this preliminary view should not pre-empt the IASB's decisions on its *Primary Financial Statements* research project.

Role of the primary financial statements and its implications

We agree, in principle, with the role of the primary financial statements and its implications as described in the DP. Similarly, those discussions should not pre-empt the IASB's decisions on its *Primary Financial Statements* research project.

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Nevertheless, we observe that the description of the role of the primary financial statements fails to consider cash flows information, which creates a disconnect with the following concepts:

(a) The statement of cash flows is one of the primary financial statements.

(b) The Conceptual Framework states that general purpose financial reports provide information (i) to help users assess the prospects for future net cash inflows, and (ii) about an entity's resources and claims and changes therein. In particular, we note that all changes in resources and claims would flow into the statement of financial performance, statement of changes in equity and/or statement of cash flows.

(c) Paragraph 3.24(e) states that a decision on whether to present information as a separate line item in the primary financial statements is made after considering the role of the primary financial statements. Therefore, it is unclear how this guidance should be applied to information in the statement of cash flows.

To address the above concerns, we suggest that the IASB could consider the following description for the role of the primary financial statements:

> "… to provide a structured and comparable summary of an entity's ***recognised resources and claims, and changes in those resources and claims***, which is useful for: (a) obtaining an overview of the entity's ***financial position, financial performance, changes in equity and cash flows****;* …".

In addition, we observe that the description of the role of the primary financial statements might not accommodate certain existing requirements, such as the presentation of earnings per share information in the statement of comprehensive income. We recommend that the IASB should assess whether the description is sufficiently robust, and explain why information that does not fit into the description ought to be presented in the primary financial statements.

Role of the notes

We do not disagree with the description of the role of the notes per se, but recommend that the IASB should give more prominence to unrecognised items. Unrecognised items have information value in its own right, but are often overlooked or perceived as supplementary in nature, as implied in paragraphs 3.27 – 3.28.

Use of the terms 'present' and 'disclose'

We agree with the IASB's preliminary views and its rationale as described in the DP.

Question 5
The Board's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c).

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(a)	Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?
(b)	Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)–(c)?

We agree, in principle, that a general disclosure standard should include a principle that allows IFRS information to be provided outside financial statements, if such information meets the requirements in paragraph 4.9. It would provide entities the flexibility to apply judgement in determining the most appropriate manner in which IFRS information is provided based on particular facts and circumstances. That said, we think that in reality there are limited circumstances that would justify providing IFRS information outside financial statements.

In our view, the crux of the issue is what and how much IFRS information can be provided outside financial statements, while preserving the understandability of financial statements and the faithful representation of information as a whole. There are various factors that constrain the provision of IFRS information outside financial statements, for example, doing so is possible only if:

(a) The legal or regulatory framework does not require financial statements to be self-contained.

(b) Such information has minimal relationship with other pieces of IFRS information and is not necessary for an understanding of other IFRS information in financial statements. Otherwise, there is a risk that the latter may become misleading.

(c) The other document contains more detailed information in comparison with information required by IFRS Standards. Otherwise, any IFRS information remaining in financial statements may become fragmented.

To guide the application of this principle, we suggest that the IASB should consider providing examples of the types of IFRS information that may be suitable to be provided outside financial statement, subject to the requirements in paragraph 4.9. This would allow entities to apply judgement based on their own specific circumstances, without the need for the IASB to make continual changes to those examples in response to changes in legal or regulatory requirements.

We further recommend that the IASB should define the boundary of the document(s) within which IFRS information could be provided, subject to conditions. As the boundary of such document(s) widens, IFRS information may become less accessible and there is a higher risk of financial statements being perceived as fragmented (although those concerns may be reduced with the use of electronic reports and other technological tools). We have also been informed of potential audit implications for both IFRS information and other information provided in the other document(s). For example, auditing standards may have to expand the auditor's responsibilities relating to other information beyond the annual report to include different documents containing IFRS information. However, the feedback on ED/2017/2 *Improvements to IFRS 8 Operating Segments* may not provide insights into such implications since its proposals did not expand the existing boundary of documents containing IFRS information.

In addition, IFRS Standards are only applicable to financial statements, and we do not think it is within the scope of IFRS Standards to require making the annual report as a whole more understandable as a condition for providing IFRS information outside financial statements. We consider that the requirement for financial statements to remain understandable, and the information to be faithfully represented, in itself should achieve the intended purpose of paragraph 4.9(b). The IASB should leave it to the framework applicable to the other document to specify the disclosure requirements for that document, but participate in the activities of the responsible international body to influence the development of a framework that would not prevent the provision of IFRS information outside financial statements if not otherwise prohibited by IFRS Standards.

Question 6
The Board's preliminary view is that a general disclosure standard: • should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but • should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c). Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

Question 7
The Board did not discuss whether any specific information – for example, information that is inconsistent with IFRS Standards – should be required to be identified as described in paragraphs 4.38(a)–(c) or should be prohibited from being included in the financial statements. Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

Subject to our comments below, we can accept a general disclosure standard not prohibiting the inclusion of information that an entity has identified as non-IFRS information, with the exception of IFRS-inconsistent information. In our view, IFRS-inconsistent information should be prohibited in financial statements, unless a particular piece of IFRS-inconsistent information is required by law or regulation. We are concerned that IFRS-inconsistent information could undermine IFRS information and might not be neutral, while causing confusion and increasing clutter. We have also been informed of audit concerns over the inclusion of IFRS-inconsistent information in financial statements.

In addition, we consider it important for the non-IFRS information (other than IFRS-inconsistent information) to be subject to requirements similar to those described in paragraph 5.34, if applicable.

We recommend that the IASB should consider the following comments in developing principles for the inclusion of non-IFRS information (other than IFRS-inconsistent information) in financial statements:

(a) It is not ideal that the requirement for clear identification and explanation depends on an entity's prerogative to identify a piece of information as non-IFRS information, rather than an objective assessment of facts and circumstances. While we appreciate the difficulties of requiring Category C information to be identified as non-IFRS information (similar to those described in paragraph 4.37), the IASB should have broader discussions with the aim of identifying solutions that would achieve a reasonable balance.

(b) The IASB should include, as a principle, the prohibition of non-IFRS information in financial statements, if the inclusion of such information obscures material information or makes financial statements more difficult to understand – similar to the requirement in paragraph 6.16(c) on accounting policy disclosures.

(c) The IASB should consider the interaction between the following requirements: (i) paragraph 4.38(c) that requires an explanation of why particular non-IFRS information is useful (i.e. relevant and faithfully represented); and (ii) IAS 1 that requires the provision of additional information if it is relevant to an understanding of financial statements. Specifically, if a piece of information is included in financial statements because it is relevant and faithfully represented, it is unclear why such information is considered to be Category C information in the first place (i.e. not relevant to an understanding of financial statements or necessary to comply with IFRS Standards).

(d) We recognise that the identification of non-IFRS information as unaudited, if applicable, could provide useful information (for example, individual users could determine the amount of corroborative information they would require to place reliance on the non-IFRS information). However, the IASB should have further discussions as to whether it should be IFRS Standards, or the auditing standards, that specify such a requirement. This issue contrasts with IFRS Standards permitting the inclusion of non-IFRS information in financial statements, which appears more aligned with IFRS Standards dealing with how an entity should prepare and present its financial statements.

Question 8

The Board's preliminary views are that it should:

- clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:
  - the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and
  - the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.
- develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

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

(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

The feedback on Question 8 will be considered as part of the Board's *Primary Financial Statements* project.

Presentation of EBIT and EBITDA

We note that the IASB's clarifications to EBIT and EBITDA subtotals merely supplement the principle in paragraphs 55A(a) and 85A(a) of IAS 1, and that the underlying discussions could have been applicable to any other subtotals. On the other hand, we recognise that EBIT and EBITDA subtotals are performance measures commonly reported by entities, which might benefit from guidance on those subtotals.

On the whole, we see more merits in the IASB developing, as part of its *Primary Financial Statements* project, broad-based guidance on subtotals other than those required in IFRS Standards, for example, by further developing the principle in IAS 1 and the discussions in the DP. The guidance could include illustrations featuring common subtotals such as EBIT and EBITDA.

Depiction of unusual or infrequently occurring items in the statement(s) of financial performance

We are mindful of the following tensions: (i) the separate presentation of unusual or infrequently occurring items – on an appropriate and consistent basis – would provide useful information for the assessment of earnings quality and prospects for future cash flows; and (ii) the challenges in developing sound and robust guidance that accommodates different facts and circumstances and in preventing potential abuse to achieve desired outcomes.

On the whole, we prefer an approach that allows the separate presentation of particular items in a way that is not labelled with special description, but is accompanied by factual and clear explanation. We believe that a neutral and transparent approach to presentation and disclosures would better allow users to understand the nature and implications of such items, and to make the necessary adjustments to serve their individual information needs.

That said, we recognise that the function of expense approach to classification of expenses could naturally constrain the separate presentation of particular items, including unusual or infrequently occurring items. On this note, the IASB would benefit from more broad-based discussions about the separate presentation of items with certain characteristics, and the adjustments to line items required in IFRS Standards, under both function of expense and nature of expense approaches.

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Nevertheless, we do not object to the IASB's preliminary view to allow entities, and to develop guidance to assist entities, to present unusual or infrequently occurring items separately. However, we are not supportive of the IASB allowing such items to be described using other terms, such as non-recurring, special or one-off, for reasons as described in paragraph 5.27. Furthermore, any guidance developed in a general disclosure standard on this topic should not pre-empt the IASB's decisions on its *Primary Financial Statements* project.

We think the definition of 'unusual' and 'infrequently occurring' in the staff draft as described in paragraph 5.24 could provide a starting point for further work on when and how items can be presented as unusual and/or infrequently occurring items. However, we recommend that the IASB should consider the following comments in developing guidance on this topic:

(a) The threshold for infrequent items appears substantially lower than the threshold of highly abnormal for unusual items. In particular, we note from current practice or understanding that the notion of foreseeable future in IFRS Standards or other IASB's documents has been generally associated with a short to medium horizon of 1–5 years. We are supportive of a high threshold for separate presentation, and are doubtful of giving special prominence to items that are not reasonably expected to recur in the foreseeable future. We are concerned that the latter risks obscuring items that genuinely warrant more prominence, and increasing potential abuse in comparison with a high threshold that naturally requires more compelling evidence.

(b) The description 'foreseeable future given the environment in which an entity operates' requires clarity as to its intended time frame. For example, a bank reasonably foresees significantly more credit losses arising from continuing exposures to particular industries during the downturn of every economic cycle, but those credit losses might not recur for the next 8–10 years. It is unclear whether those credit losses could be considered as not reasonably expected to recur in the foreseeable future given the operating environment, and therefore, presented as infrequent items.

Question 9
The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34. Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

We broadly agree with the IASB's preliminary view that a general disclosure standard should describe how performance measures can be fairly presented in financial statements as described in paragraph 5.34. We consider that such guidance has the potential to address stakeholders' concerns as described in paragraph 5.11.

Nevertheless, similar to our comments under Questions 6 and 7, we suggest that there should be further discussions as to whether it should be IFRS Standards, or the auditing standards, that specify the requirement for performance measures to be identified as unaudited, if applicable.

Question 10

The Board's preliminary views are that:
• a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and
• the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):
  ◦ the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and
  ◦ the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.
(a) Do you agree with the Board's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?
(b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?
If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

We are generally supportive of the IASB's preliminary views on accounting policy disclosures, which are arguably one of the most obvious boiler-plate disclosures in financial statements. We consider that the guidance has the potential to assist entities in applying judgement to improve accounting policy disclosures, thereby addressing some of the stakeholders' concerns as described in paragraph 6.6. In our view, the IASB should consider giving more emphasis to the importance of entity-specific accounting policy disclosures.

We can accept including, in a general disclosure standard, the guidance on the location of accounting policy disclosures, with some exceptions such as the alternatives for locating Category 3 accounting policies as described in paragraphs 6.24(a)–(b). The latter discussions, together with examples illustrating the guidance in a general disclosure standard, could be provided as non-mandatory guidance. This non-mandatory guidance could be in the form of accompanying illustrative examples and implementation guidance. This would give the general guidance on the location of accounting policy disclosures more authority and to allow it to influence behavioural changes.

Question 11
The Board's preliminary view is that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes. Centralised disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements. Do you agree that the Board should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?

Question 12
The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards: • focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or • focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B). (a) Which of these methods do you support, and why? (b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section. Methods A and B are in the early stages of development and have not been discussed in detail by the Board. The Board will consider the feedback received on this DP about how centralised disclosure objectives might best be developed before developing them further.

Question 13
Do you think that the Board should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?

Question 14
This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards.

(a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?

(b) Do you think that the development of such an approach would encourage more effective disclosures?

(c) Do you think the Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not?

Note that the Board is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB staff's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

In principle, we are supportive of the IASB developing centralised disclosure objectives. We appreciate that centralised disclosure objectives could have the potential benefits as described in paragraph 7.10. That said, the challenge for the IASB is to develop a set of centralised disclosure objectives that is sufficiently high level to be applicable across transactions, events or conditions, without being so general to the extent that it fails to provide substantive guidance to aid the application of judgement.

Beyond the centralised disclosure objectives and standard-level disclosure objectives, the IASB should consider improving its articulation of the purpose of individual disclosure requirements and how the resulting information would contribute to the standard-level disclosure objectives. We have been informed that standard-level disclosure objectives are typically too general for entities to discern why the IASB considers the specified disclosure requirements, but not other disclosures, to be necessary to meet those disclosure objectives.

In our view, the IASB's predominant approach of developing and organising disclosure objectives and requirements does not appear to be broken. In addition, Method A would be more aligned with the IASB's preliminary views on the role and content of the notes. It is also unclear, based on the high-level discussions in the DP, whether Method B would provide substantially more relevant information, or merely organise information differently, in comparison with Method A. On the whole, we see more merits in the IASB adopting an approach similar to Method A, supplementing it with additional relevant disclosures under Method B, and reviewing the existing disclosure objectives and requirements in the light of new principles and objectives of effective disclosures.

Furthermore, we are more supportive of locating standard-level (or a group of related standard-level) disclosure objectives and requirements in individual IFRS Standards, for reasons as described in paragraphs 7.40(a)–(b). The grouping of disclosure objectives and requirements for *related* topics could mitigate the concerns underlying, and reduce the pressure to address across *unrelated* topics, the need for more unified disclosure requirements and clearer identification of relationships between different disclosure requirements. In any case, the IASB would have to consciously consider consistency and coherence as different disclosure objectives and requirements are developed over time, regardless of where those disclosure objectives and requirements are located.

On this note, we think that the IASB could consider the NZASB staff's approach as a starting point for further work on drafting disclosure objectives and requirements in IFRS Standards. In particular, we appreciate a two-tier approach to disclosing information for reasons as described in paragraph 8.13, and the emphasis on the use of judgement in disclosure requirements. Nevertheless, the NZASB staff's approach highlights various challenges, for example, the difficulty in developing meaningful disclosure objectives, categorising disclosure requirements between the two tiers of disclosures, and emphasising the use of judgement without duplication across IFRS Standards.

In summary, having regard to our earlier comments, we suggest that the IASB could consider the following approach as a starting point for further work:

A general disclosure standard

A general disclosure standard specifies the disclosure principles and the centralised disclosure objectives. It is accompanied by illustrative examples, for example, on the use of formatting.

The IASB could consider the following as a starting point for further work on the centralised disclosure objectives:

(a) The objectives as described in paragraph 8.7; and

(b) The objectives for providing the following information: (i) information as described in paragraphs 8.8(b)–(c) and 8.8(e)–(g); (ii) information such as the description of item, transaction, event or condition, and the changes in financial position, financial performance and cash flows.

Individual IFRS Standards

The individual IFRS Standards specify the standard-level disclosure objectives and the specific disclosure requirements for a group of related topics, using an approach similar to Method A. If appropriate, the disclosure requirements specify particular formatting that the IASB has assessed to be the most appropriate for particular item or transaction, while permitting the use of other formatting if it would improve the understandability of financial statements.

The IASB should consider the following in developing disclosure requirements:

(a) A two-tier approach to disclosures, based on the concept of materiality;

(b) For second-tier disclosure requirements, an explanation of the purpose of disclosures, how disclosures would contribute to standard-level disclosure objectives, and the circumstances in which disclosures should be made;

(c) An emphasis on the use of judgement in applying the disclosure requirements; and

(d) The use of less prescriptive wordings in the drafting of disclosure requirements.

We hope that our comments will contribute to the IASB's deliberation on the DP. Should you require any further clarification, please contact our project manager Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
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