Ernst & Young Global Limited
6 More London Place
London
SE1 2DA

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

INVESTOR IN PEOPLE

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

2 October 2017

Dear Board members,

Invitation to comment – Discussion Paper DP/2017/1 – Disclosure Initiative – Principles of Disclosure

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on Discussion Paper DP/2017/1 – Disclosure Initiative – Principles of Disclosure (the Discussion Paper or DP) from the International Accounting Standards Board (IASB or Board).

In general, we agree with the objectives and the overall direction of the Discussion Paper, which is to identify disclosure issues and develop new, or clarify existing, disclosure principles in IFRS Standards to:

- Help entities to apply better judgement and communicate information more effectively;
- Improve effectiveness of disclosures for the primary users of financial statements; and
- Assist the Board to improve disclosure requirements in Standards.

Enhancing communication effectiveness involves restructuring (how information is presented/disclosed) and tailoring (which information is presented/disclosed) of IFRS financial statements. The DP supports entities in applying these practices and we agree that it might contribute to a behavioural change among entities which will facilitate better communication and enhance disclosure effectiveness.

We acknowledge the importance of the DP as well as the entire Disclosure Initiative which is a major part of the better communication project. We consider these as appropriate measures to enhance the communication effectiveness of IFRS financial statements and make them more relevant for their users.

A number of entities have already adopted alternative practices aiming to improve the communication effectiveness of their financial reporting, e.g., by using alternative performance measures (APM) to provide relevant input in predicting future cash flows and valuing entities. APM have gained more prominence in the recent past and are often disclosed outside the IFRS financial statements due to lack of IFRS requirements. Although APM disclosed outside the IFRS financial statements represent the management's view and are, as such, often a helpful complement to the IFRS measures, and sometimes even more relevant than the IFRS measures themselves, these disclosures are usually unaudited and therefore provide less comfort to users of financial statements. Consequently, balancing the

relevance of the management view with the comparability and reliability of audited and more standardised information should, in our view, be the IASB's priority when considering ways to enhance communication effectiveness.

Furthermore, the DP relies on the assumption that users would read financial statements as a traditional printed copy, and it does not take into account alternative, digital content delivery methods and the impact of how financial statements are used with the help of current technology, let alone future patterns of use. In our view, this aspect should not be ignored when considering principles of disclosures.

Our responses to the specific questions in the DP are provided in the Appendix.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

Appendix

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 (ie either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

(a) The causes identified by the Board are similar to our observations in practice. In some jurisdictions entities seem to be primarily compliance focused using a checklist approach rather than applying judgement to ensure entity-specific disclosures. We believe that the convenience of a checklist approach versus the challenge of applying judgement, due to the lack of clear disclosure objectives in the standards and the often long lists of minimum disclosure requirements, are the two main causes of the disclosure problem that makes the IFRS financial statements less relevant to users. The convenience of the checklist approach is evidenced by the fact that entities are generally not challenged for inclusion of irrelevant information in the financial statements, whilst the judgement applied when omitting immaterial information is challenged more frequently. As acknowledged in paragraph 1.10, we believe the real challenge is how to get preparers and users of financial statements to recognise the relevant behaviours and how they potentially contribute to the disclosure problem.

However, we are not convinced the Board's analysis of the disclosure problem appropriately reflects current and future content delivery methods. In effect, the DP seems to assume that financial statements are prepared and read in a traditional printed format. However, current technology allows for other content delivery methods, and future technological developments may introduce other methods as well. Disclosure overload, or the communication of irrelevant information, may be a lesser problem when users extract the information of interest at their own discretion, disregarding the irrelevant information. Also, the idea of the financial statements as a separate document which, in itself, must effectively communicate the relevant information, may not be representative of current user behaviours.

In summary, we agree with the Board's description of the problem and its causes when we consider the traditional printed format of financial statements. However, we believe the description is of less relevance when alternative delivery methods are considered. Therefore, we also believe the Board should address alternative content delivery methods when developing principles of disclosure. If not, a new general disclosure standard is likely to be of less relevance and potentially of little interest as user behaviours change.

Nevertheless, we respond to the questions raised assuming the same delivery method as the Board does.

(b) We agree that the development of disclosure principles would be helpful for preparers when applying judgement in deciding what information to disclose in financial statements and

the most effective way to organise and communicate it (i.e., telling 'their story'). As such, the inclusion of additional guidance in a general disclosure standard may contribute to a behavioural change that would facilitate better communication by way of enhancing disclosure effectiveness.

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 Discussion Paper 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?

Although the DP considers the interaction between the financial statements and other sections of an annual report, it does not, as discussed in our response to Question 1, consider current and future technology developments. For instance, the discussions on location of information, cross-referencing, and inclusion of non-GAAP information in the financial statements, are based on the assumption that users would read financial statements as a complete document in a traditional printed format. We are not convinced that this approach appropriately considers future financial reporting practices and uses. The impact these proposals might have on those future reporting practices is therefore potentially less than expected when assuming the traditional delivery method, as the Board does.

The Board plans to use feedback received on this project to inform the other projects within the Better Communication theme. We are concerned that this approach may lead to inconsistencies and overlaps between different guidance documents, for instance, the Principles of Disclosure project and the ongoing Primary Financial Statements project. We recommend that the Board aligns these two projects (also in terms of timing) in order to avoid significant overlaps.

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.	

(a) We agree that the Board should develop principles of effective communication for entities to apply when preparing their financial statements, because doing so may increase preparers' attention to the primary objective of financial reporting, i.e., to provide information that is useful to the users in making economic decisions and encourage preparers to adopt suitable approaches to communicate their story and enhance disclosure effectiveness. From an audit perspective, we believe that such principles could also serve as a helpful reference in discussions with audit clients.

(b) Generally, we agree that the principles outlined in paragraph 2.6 are appropriate considering their purpose. However, we think the following aspects need to be considered:

- Paragraph 2.6(c) contains principles about 'important' matters, which seem to introduce another layer of assessment, as the conceptual threshold is 'relevance'. Therefore, we believe further explanations, illustrations, and/or examples are required to allow preparers, and others, to understand and apply the concept of 'importance'.
- It might be difficult from an auditor's perspective to audit and enforce the assessment of whether some of the principles were complied with, for instance paragraph 2.6(g), which requires an entity to apply an 'appropriate format' or paragraph 2.6(c) which includes principles about the organisation of the disclosures. In these instances it might be more appropriate to provide non-authoritative illustrative examples to understand what the Board considers as 'important matters' or as 'appropriate formatting'.
- We agree with the concept set out in paragraph 2.6(f). However, an entity does not have access to the required information from peers in order to determine whether its circumstances are comparable, and thus, in practice, this principle seems rather difficult to apply.
- Also, it is unclear how these principles would interact with the guidance in paragraph 30A of IAS 1 *Presentation of Financial Statements*, which states immaterial information should not obscure material information. In our view, paragraph 30A of IAS 1 represents another principle of effective communication.

(c) We believe that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard. This would provide a basis for these principles becoming more influential through the authority of standards and support a behavioural change. Furthermore, we are generally not persuaded by the arguments on auditability and enforceability, beyond our concern on this as discussed in (b) above, because the application of such principles would not differ from the assessment

of materiality and fair presentation, which also requires the application of significant judgement and is part of current IFRS.

(d) As already mentioned, the principles dealing with formatting issues (i.e. paragraphs 2.6(c) and 2.6(g) need to be considered carefully, whether they fall within the scope of standard-setting, rather than being illustrated in non-mandatory application guidance.

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?

We believe the Board's preliminary views outlined in Section 3 of the DP are, to a large extent, conceptual in nature, and we suggest the Board considers whether these specifications and descriptions should be part of the Conceptual Framework, rather than the Principles of Disclosure project.

We are not convinced by the Board's tentative view to continue to use the terms 'disclose' and 'present' interchangeably. We would prefer the Board consistently uses the terms present and disclose as that will help preparers to decide on where to include information and users to locate the information. This is in particular the case now the Board intends to specify the intended location as either in the primary financial statements or in the notes.

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).

(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)?

(a) In general, we agree that cross-referencing may be a good way to avoid duplication of information and remove clutter in annual reports. Furthermore, cross-referencing may facilitate the connectivity of information across corporate reports, in alignment with the integrated reporting framework of the International Integrated Reporting Council. However, the use of cross-references challenges the concept of the financial statements being one document and their boundaries.

From an audit perspective, we are concerned about the interaction between audited financial statement information and non-audited information in practice and that users may be confused about the assurance provided on the financial information disclosed. For example, the boundaries between audited financial statement information and unaudited information may be blurred when an entity is cross-referencing to a document outside the financial statements containing both audited financial statement information and other information. Furthermore, we are concerned that the new principle may encourage entities to scatter IFRS information throughout the annual report, which might decrease the understandability of relevant financial information. In our view, the criteria in paragraph 4.9(b) are key to the assessment of the cross-referencing proposal. We believe that these criteria are vague and difficult to apply in practice. The boundaries of the financial statements, for the benefit of the users, must be clear and unambiguous. Among other things, users place value on external assurance, such as audit reports. The value of the assurance diminishes if it is not clear to which information the assurance applies.

Paragraph 4.9(a) refers to the 'annual report' as representing the boundary for the purposes of cross-referencing. An annual report may be very different in scope and content across jurisdictions. Also, paragraph 4.22 refers to the 'annual reporting package', which represents even less clear scoping.

(b) In some jurisdictions, local law requires certain information to be provided outside the financial statements, such as in the management discussion and analysis (MD&A). If the same information is required by IFRS, it may be appropriate to include the information in the financial statements by way of cross-referencing. Examples of this include: financial risk disclosures in some jurisdictions; and, disclosure of research and development activities and ongoing litigations

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?

We agree with the Board's preliminary views regarding the inclusion of 'non-IFRS information' in the IFRS financial statements. However, we believe that the difference between the three categories of information as introduced in paragraph 4.33 (i.e., information that is specifically required by a standard (Category A), additional information necessary to comply with IFRS standards (Category B) or additional information that is not in Categories A or B and includes information that is inconsistent with IFRS standards and some non-financial information (Category C)), is not sufficiently clear. In instances where additional information does not directly conflict with IFRS, but is not specifically required by IFRS, it is difficult to distinguish between Category B and C, as presumably the only reason for including Category C information is that the entity assesses the information as useful. In that case, would it, under IAS 1, be Category B information?

Furthermore, we are concerned that the proposed disclosure requirement in paragraph 4.38(c), which is to explain why the information is useful, will add boilerplate-type disclosures, which conflicts with the objective of the Principles of Disclosure project.

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?

The Board should not prohibit the inclusion of any specific types of additional information in the financial statements, in our view, as there is no basis on which the IASB could prohibit the disclosure of non-IFRS information in the IFRS financial statements. Furthermore, the inclusion of such information is already restricted by the requirements in paragraphs 49 and 50 of IAS 1 and is sufficiently regulated by paragraphs 4.38(a)-(c).

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.

(a) We believe that the clarifications on the presentation of additional subtotals (i.e., EBITDA and EBIT) in the statement of financial performance are not necessary, considering that paragraphs 85 – 85B of IAS 1 already provide principles on the presentation of additional line items and subtotals. Clarifying certain subtotals, such as EBITDA and EBIT, presumably by defining them, is not helpful in our view. These are only two of various subtotals applied in practice, and thus it is not clear why these deserve particular attention. One potential benefit of defining certain subtotals is that they will not be considered APM, thus the common requirements for additional disclosures regarding APM disclosed outside the financial statements will not be applicable. But again, we are not convinced that this alone would be a relevant basis for embedding these measures in the IFRS literature. If the reason is their prevalence in current practice, we would consider that the results of operating activities, as discussed in paragraph BC56 of IAS 1, also should be clarified/defined in the relevant IFRS standard.

The presentation of normalised performance measures by depicting unusual or infrequently occurring items in IFRS financial statements has become more popular in some jurisdictions. We have observed discussions about definitions and classifications, in particular, whether certain items (e.g., restructuring expenses and impairment expenses) can be characterised as special/unusual/non-recurring. One view, is that as long as the definitions are clear and

unambiguous, applied consistently, and there is transparency with regard to items included, disclosure of such measures may be appropriate. However, various practices exist across different jurisdictions; sometimes these reporting practices are affected by local regulations and guidance issued by regulators. Therefore, we agree that there are arguments for the development of definitions of, and requirements for, presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.

However, we are concerned that the discussion of unusual or infrequently occurring items in paragraph 5.28(b) suggests a too narrow scope of these items in order to be relevant in practice. This could encourage entities to present and communicate their self-defined performance measures outside the IFRS financial statements to the users, making IFRS performance measures less relevant. Also, entities may introduce alternative terms to avoid the restrictions of the narrow definitions, in which case, there would be nothing to be gained from defining 'unusual' and 'infrequently' occurring items.

(b) We agree that it is helpful to develop definitions of terms that may be used to describe the nature of certain items, but whether one refers to highly abnormal items as 'unusual' or 'special', or 'exceptional' for that matter, seems less important. We recommend using 'unusual' and 'infrequently occurring' items as illustrations of terms that may be used, with a clarification of the nature of such items, but also allow for other similar terms, as long as the preparer carefully complies with the criteria in paragraph 5.34.

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 agree that the general disclosure standard should include a requirement as proposed in paragraph 5.34.

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.

(a) We agree that a general disclosure standard should include requirements on determining which accounting policies to disclose. We believe it might be helpful to provide specific guidance as proposed in the DP on which accounting policies to disclose (paragraphs 6.17-6.19) in order to direct the preparers to more entity-specific disclosure behaviours. We also believe that the categorisation of policies, 1 - 3, as per par 6.12 through 6.14, might be helpful to direct the attention of the preparers to the more critical policies.

(b) We do not agree that the Board should provide guidance on location of policy disclosures. We believe that developing guidance on the location of accounting policy disclosures is neither necessary nor helpful, because the proposed guidance may only describe current practice and, therefore, is not capable of causing any behavioural change. Paragraph 114 of IAS 1 already provides guidance on the order of the notes. Furthermore, it seems counter-productive to provide guidance on where to disclose Category 3 within the financial statements information if disclosed, because this is not relevant information, by definition. By providing guidance on where to disclose it, entities might in effect be encouraged to disclose irrelevant information.

We believe that guidance on the location of disclosures, including policy disclosures, is not part of standard setting, but rather application guidance, and therefore should not be included in a general disclosure standard.

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?

We agree that the Board 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 will both represent a helpful benchmark for the Board in developing disclosure requirements and a framework for preparers in applying the specific disclosure requirements. That is, by using the centralised objectives as a framework, determining the content, format and materiality of the disclosures derived from specific requirements will become a more consistent exercise/judgement.

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. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

We believe that Method B should be further explored. As explained in the DP, Method A seems to be a description of the current approach applied by the IASB, which has not proven fruitful. A focus on the key activities of an entity will potentially allow for more consistency between financial statements and other corporate reporting, such as management performance reporting, which tends to be more focused and streamlined with an entity's business model. However, whether Method B can be developed into a practical approach to disclosure requirement setting cannot be determined based on the DP. Therefore, we believe that the method should be further explored/developed before making a decision on what method to rely on in standard setting. In that context, the Board should also consider current practice as it has become more common to reorganise the notes in reference to activities. Indeed, it may be possible to achieve the benefits of Method B also under the current approach, by providing application guidance on the organisation of the disclosures.

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?

We do not think this is a critical issue at this stage. If Method B is elected, we believe a single disclosure standard might be more appropriate, while if Method A is chosen, it might be that continuing with standard-specific disclosure requirements could be the best approach. Furthermore, we believe the Board should prioritise the nature and content of the Principles of Disclosure project, and we acknowledge that developing one single standard may require additional resources. Also, practice, for instance the audit firms, has already developed tools, such as disclosure checklists, in which all of the disclosure requirements of the different standards are included in one location.

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).

(a) We are not sure whether the definition of tier 1 and tier 2 disclosure requirements is clear enough to allow entities to distinguish between these two categories. For instance, in paragraph 16.X3 (f) of example 2 in the DP, an entity is required to disclose, 'a summary of any other information necessary to provide an overall picture [...]' as part of the tier 1 disclosures, whereas, according to paragraph 16.X4, 'an entity shall assess whether it is necessary to disclose information about property, plant and equipment in addition to that required by paragraph 16.X3 [...]' in its tier 2 disclosures. We believe it might be difficult for entities to differentiate between required additional information in accordance with these two paragraphs. However, we agree with the inclusion of the paragraphs emphasising the need for judgement in determining what information to disclose and how to disclose it. We also agree with the NZASB suggestion to use less prescriptive language when drafting disclosure requirements in the standards.

(b) We are concerned that this approach would not contribute to a behavioural change encouraging more effective disclosures. In paragraphs 16.X5-16.X9 of example 2 in the DP, the NZASB staff provides a list of potential information an entity might consider disclosing as additional information (i.e., tier 2 information). We believe it is helpful for preparers to have some guidance on which information should be considered in the tier 2 assessment since the requirement in paragraph 16.X4 seems to be rather vague. However, we also believe there is a risk that these examples will be treated, in practice, as a list of minimum requirements in practice.

(c) We agree that the NZASB staff's approach might be worth exploring further, taken into account our initial observations summarised in (a) and (b) above.

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 that there are certain aspects of current standard-setting that contribute to the disclosure problem. For instance, paragraph B64 of IFRS 3 *Business Combinations* includes a long list of disclosure requirements, some of which may be provided on an aggregated level for business combinations not individually material if on an aggregated level the business combinations are material. IFRS 12 *Disclosure of Interests in Other Entities* requires information about joint ventures and associates that are not individually material, without any explicit exemption if the immaterial investees are not material in aggregate. This is potentially confusing, and may lead to disclosure of immaterial, and thus irrelevant, information.