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Dear Sirs,

Disclosure Initiative — Principles of Disclosure

We welcome the opportunity to respond to the IASB's discussion paper on the Principles of Disclosure. The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

We have responded below in more detail to the specific questions from the point of view of our members, small and mid-size quoted companies.

Responses to specific questions

Q1 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?

We agree with the description of the disclosure problem given in table 1.1 of the discussion paper. The problems identified are similar to those that we often see within the draft, and finalised, financial statements prepared under IFRS.

We also agree that the underlying cause of the disclosure problem is the perceived 'compliance' approach to the presentation of information in the financial statements. This is often hindered by accounting standards asserting that a disclosure "shall" be given to comply with the disclosure objective of the standard. This is frequently interpreted by preparers, but also by auditors and other advisors, as a mandated disclosure regardless of materiality or relevance. We acknowledge that amendments have been made to IAS 1 to state that this is not the case, but do not consider this in itself to be sufficient.

(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?

Whilst a general disclosure standard or an update to IAS 1 may assist users in identifying a single location for the disclosure principles, we do not believe that this will necessarily address the disclosure problem identified by the IASB.

Although it would be a large scale project for the IASB, it would be more beneficial for the disclosure principles to be reflected in the disclosure requirements within all accounting standards rather than just a targeted few. This will then embed the disclosure principles throughout IFRS and ensure that a wide range of stakeholders – including preparers, users, auditors and regulators – consider the principles at every stage when determining the appropriate accounting treatment and disclosure for a transaction or event.

The Standards-level Review of Disclosures project mentioned in paragraph 1.16(c) should be undertaken and given higher priority, otherwise the IASB risks trying to change preparer and auditor behaviour without a concomitant change in its own behaviour. Paragraph 1.16(c) suggests that only once the Principles of Disclosure project is complete will the Board even "consider whether to make targeted improvements to disclosure requirements in existing Standards and to develop guidance for the Board to use when developing disclosure requirements in new and amended Standards."

This suggests that the Board places more weight on the causes of the "disclosure problem" outlined in paragraphs 1.6 and 1.7 (entities, auditors and regulators adopting a "checklist" approach and not using judgement effectively) and much less on the issue described in paragraph 1.8 (Standards lacking clear disclosure objectives and "long lists of prescriptive disclosure requirements"). This seems to contradict paragraph IN3(c), which states that part of the main objective of this project is to "assist the Board to improve disclosure requirements in Standards".

In discussing the development of disclosure principles, paragraph 1.9 notes that this needs "to be accompanied by a change in the behaviour of parties that are described in paragraph 1.7". Whilst we agree with this statement, we would encourage the Board to consider:

- how it can engage finance directors of small and mid-size quoted companies (and their investors) in promoting this behavioural change. We would be happy to discuss how our role in facilitating this; and

- how it can change its behaviour to deal with the problems noted in paragraph 1.8.

Q2 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?

We have no comments.

Q3 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?

We agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements. Such principles will assist preparers, users, auditors and regulators to understand the needs and requirements when preparing such information.

(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?

We agree with the principles listed in paragraph 2.6 of the discussion paper. These principles set out the fundamental basis for the preparation of meaningful and useful financial statements for a range of users, stakeholders and shareholders.

We also agree that entities should be encouraged to apply judgement when addressing conflicts between principles. The example quoted by the Board, of entity-specific information versus comparability, is a common example in practice.

(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?

We believe that the principles of effective communication that entities should apply when preparing the financial statements should be issued as non-mandatory guidance.

Additions to standards are likely to be perceived as increasing the disclosure burden noted in paragraph 1.2. Increasing the amount of judgement which will be mandated for preparers is likely to require more attention from, and discussion with, auditors and the regulator. This will result in higher compliance costs. We have already seen some evidence of this following the introduction of revised requirements in ISA 720 regarding "other information".

Non-mandatory guidance would also allow the Board "to combine the principles with practical guidance – for instance, including examples of their application", which would be helpful for preparers and auditors.

However, if the IASB wishes to instigate change in the presentation of information in the financial statements, it should incorporate the principles of effective communication within a general disclosure standard rather than within non-mandatory guidance. Preparers of financial statements are more likely to read and apply a standard which requires compliance than 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?

Yes, non-mandatory guidance on the use of formatting in the financial statements should be developed. It would reinforce the notion to preparers and auditors that the presentation of financial statements is an important element in enhancing their value to users.

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

Non-mandatory guidance should not be in the form of educational guidance on the IFRS Foundation's website; it is not a sufficiently well-known source of information. Using a Practice Statement that does not accompany a specific Standard would be in line with the Board's approach to materiality guidance.

Q4 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 agree with the Board's preliminary views regarding what a general disclosure standard should include. In particular, the Board should specify the intended location of information in the financial statements when drafting IFRS standards. This will assist preparers, users and auditors in their understanding of the intended and most appropriate location of information in either the primary financial statements or in the notes to the financial statements.

Q5 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?

Yes, we agree with the Board's preliminary view 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).

(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 have no comments.

Q6 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 view. There should be no prohibition on non-GAAP figures. The Board should ensure that any guidance or requirements introduced in respect of the financial statements is no more restrictive than, and consistent with, the ESMA guidelines on alternative performance measures.

Q7 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?

We do not believe that the Board should prohibit the inclusion of any specific types of additional information in the financial statements. The primary objective of the information presented, outside of that which is 'mandated', should be for entities to provide information that is necessary and useful to the understanding of its financial position and performance for the reported year. Restricting such disclosures would contradict the need for preparers to apply their judgement on what is considered relevant information for inclusion in the financial statements.

Q8 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?

Yes, we agree with the Board's preliminary views regarding EBITDA and EBIT. Both are commonly-used performance measures in the UK, and, if used appropriately, can assist users in understanding the performance of an entity.

Nonetheless, although we support the Board taking steps to clarify the presentation of unusual or infrequently occurring items to discourage inappropriate usage, we would urge the Board to stick to principles that will support an entity in making appropriate judgements. For example, the question in paragraph 5.28(c) as to whether an entity should separately disclose a significant one-off payment to settle a legal claim as unusual, infrequently occurring or a re-occurring item that is unusually large is getting into unnecessary detail for a project that is meant to be focusing on the principles of disclosure.

(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?

As previously mentioned, we do not think that the Principles of Disclosure should be so prescriptive. The principle is that such items should be clearly defined and described in a way which is understandable and useful to users.

(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?

We have no comments.

Q9 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?

Yes, we agree with the Board's preliminary view that a general disclosure standard should describe how performance measures can be fairly presented in financial statements. Defining what information should be used to clarify the calculations presented and reconciled to the financial statements would be helpful to preparers of financial statements and their advisors and auditors.

Q10 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?

Yes, we 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. Such requirements should help to make the accounting policies disclosed by an entity more useful and relevant to users.

(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 do not think that mandatory requirements on the location of accounting policies are particularly helpful. It would stifle innovation and restrict choice in an area where consistency is not critical.

Q11 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?

Yes, we agree that the Board should develop centralised disclosure objectives. They would also assist preparers and auditors in judging whether or not particular disclosures should be included in the financial statements.

Q12 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 have no comments.

Q13 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?

No, we do not 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. It is easier to follow and use if guidance is included in appropriate Standards.

Q14 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).

We believe that the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards is potentially promising and should be considered further. A less prescriptive approach with guidance on the intended purpose of certain disclosures may encourage better financial reporting.

Q15 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 the way the Board currently drafts IFRS Standards contributes to the disclosure problem for the reasons set out in paragraph 8.4 and as reflected in the responses given to the previous questions.

The Board could improve the drafting of Standards to follow the principles of effective communication and the disclosure objectives being explained in the discussion paper. The use of specific language which asserts compliance without reference to materiality or relevance should be avoided so that preparers can apply their judgement in whether or not a disclosure is needed for a specific transaction or event included in the financial statements.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

Tim Ward
Chief Executive

APPENDIX A

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Howells (Chair)	**Smith & Williamson LLP**
Matthew Stallabrass (Deputy Chair)	Crowe Clark Whitehill LLP
Jonathan Compton	BDO LLP
Peter Westaway	Deloitte LLP
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars
Rochelle Duffy	PKF Littlejohn LLP
David Hough	RSM
Neil Armstrong	Unattached
Edward Beale	Western Selection Plc