

Comments

Discussion Paper DP/2017/1

Disclosure Initiative – Principles of Disclosure

Register of Interest Representatives

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Berlin, 17-09-27

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 1,700 banks.

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Question 1

- (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?*

Ad a)

We would basically agree with the description of the 'disclosure problem' in the IASB DP. Of course the problem is multifaceted and there are many root causes of the problem other than the requirements in IFRS. Besides this we think the IASB is too much focused on the application of judgement as the main cause for this issue. Instead we consider that the remaining aspect of the disclosure problem as of today is mainly one of disclosure overload, i.e. the accumulation of disclosure requirements over many years from continuous addition but rarely removing such requirements. It is therefore a concern that the IASB DP makes no mention of the extent to which the proposals in the IASB DP might address concerns about disclosure overload. Because of this, we think the IASB should prioritise its other "The Standard-level Review of Disclosures" project to tackle disclosure overload through a comprehensive review of standards-level requirements.

The objective of this review should be to develop a clear, effective, coherent and comprehensive but concise package of disclosure requirements. This review should, in particular, aim to identify and remove any disclosure requirements that are disproportionate or redundant. We consider that the overall success or failure of the Disclosure Initiative will become evident only when this has been completed. We propose to include all of the IFRS standards in this review but particularly older standards and – from banking industry point of view – IFRS 7.

Ad b)

From a conceptual point of view, a general disclosure standard would be helpful. But we are not sure if it would be in practical terms as judgement is not only applied by the entity but also by auditors, regulators etc.

Question 2

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?

No.

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Question 3

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.

Ad a)

Yes.

Ad b)

We have concerns about the way the comparability principle is drafted in the DP. In paragraph 2.6(f) of the DP the IASB states that preparers should provide information “in a way that optimises comparability among entities and across reporting periods without compromising the usefulness of the information”. We think that achieving a certain level of comparability among entities as regards information in financial statements is not the job of the entity but rather the prime task of the standard setter.

Ad c)

We think that the principles of effective communication should be issued as non-mandatory guidance in the form that accompany but do not form part of the general disclosure standard as it would be difficult to establish anything other than high-level generic principles (compare paragraph 2.13 (a)).

Ad d)

No.

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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?

Generally, we agree with the proposals concerning the description of the role of the primary financial statement.

Although we do not disagree with the description of the role of the notes, we nevertheless have a concern regarding the phrase in paragraph 3.28(b) to provide "other information that is necessary to meet the objective of financial statements". In our view, this does not effectively define the boundary of the notes and could increase the implementation burden for preparers of financial statements.

We disagree with the IASB's preliminary view not to prescribe the meanings of 'present' and 'disclose' and to specify the intended location as either 'in the primary financial statements' or 'in the notes'. This is because, in our view, the terms "present" and "disclose" are already used in today's practice to often refer to the primary financial statements and the notes respectively. Moreover, we note that it would be illogical if the associated terms "presentation" and "disclosures" are not consequentially changed as well. Therefore the IASB should clarify this so as to avoid confusing stakeholders.

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Question 5

- (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 think that the cross-referencing principle can be useful and help to clarify whether the exceptions in existing standards that already permit placement of information 'outside' financial statements for specific disclosure requirements can be applied to other disclosure requirements, too.

Concerning the proposed requirements in paragraphs 4.9(a)–(c), we believe that the guidance for scenarios to which criterion 4.9 (b) is intended to apply could be improved. In addition, the application of 4.9 (b) seems to be difficult. In general we consider that any such guidance should remain principles-based rather than refer to specific documents (such as the annual report where e.g. the content may vary across jurisdictions).

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 that non-IFRS information should not be prohibited. In case non-IFRS information is included in IFRS financial statements, we agree with the proposed requirements in paragraph 4.38(a). However, we have some concerns on how the other 2 requirements are to be applied:

- The requirement in paragraph 4.38(b) is not clear as it is just a possible way of implementing the requirement in paragraph 4.38(a).
- The requirement in paragraph 4.38(c) to explain why the information is useful as this requirement is too broad/generic. We note that certain national laws or regulations require some non-IFRS information to be provided in accordance with the national laws or regulations, and therefore it would be difficult for the entities facing such situations to certify that it is in compliance with paragraph 4.38(c).

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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?

No.

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?*

Concerning this question we are looking for the DP on Primary Financial Statements as we assume that the Board will give some illustrative examples of primary financial statements for the banking industry.

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.

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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 generally agree with the Board's preliminary views.

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.

Ad a)

We agree.

Ad b)

We think that any guidance (which should be non-mandatory) should not be overly prescriptive as to their form and location, i.e. entities should have flexibility to determine the form and the location of disclosure that best meets users' needs.

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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?

In general, we support developing disclosure objectives for IFRS Standards. However, it is difficult to say whether we agree with the IASB's preliminary view that the development of a central set of disclosure objectives is the right direction to pursue although we acknowledge that it would aid the IASB in developing more holistic disclosure objectives and requirements in Standards. This is because we are concerned that the IASB might look to adopt a disclosure regime where each IFRS Standard will only have disclosure objectives or principles. This concern that we have comes from certain implicit references in the DP such as in paragraph 8.26(a) where the DP has opined that the provision of "examples of additional disclosures" in the NZASB staff approach to developing the disclosure requirements might still preserve the "checklist mentality". We note that eliminating these "examples of additional disclosures" in the NZASB staff's approach would essentially make the disclosure requirements in the Standards to be either disclosure objectives or principles. In this regard, we think that there could be unintended consequences for stakeholders from having only disclosure objectives or principles in each IFRS Standard in terms of the cost of implementation compared to the untested benefit that the information will become more relevant and useful for the users of the financial statements.

Because of the above, we believe that the IASB, when developing the disclosure requirements in the IFRS Standards, should strike an appropriate balance between high-level principles and more prescriptive guidance. The latter is still needed as it helps entities to understand the nature and the level of the information that is needed to be provided in the notes.

Question 12

The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralized 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).*

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- (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.

Given our response to question no. 11 and since the DP did not provide sufficient details about method B, it is difficult to form a view on which method to support although we note that method A would be easier to implement as the IASB is familiar with developing disclosure objectives and requirements in individual IFRS Standards on the basis of the types of information useful to users of the financial statements about the items within the scope of the IFRS Standard.

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 consider that the location of the disclosure requirements is not the primary issue.

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).

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No. It is unclear to us how a two-tier (or even multiple-tier) disclosure approach, as proposed by the NZASB staff, should work in practice.

Because of the above, we are wondering whether the IASB should fundamentally change its current approach to developing the disclosure requirements in some recent IFRS Standards where there is a disclosure objective supported by detailed disclosure requirements. As we have already mentioned in our response to Question 1 that the disclosure problem is multifaceted, it could be that the combination of the proposed solutions in Sections 2-4 of the DP and making certain targeted improvements to the current approach in developing the disclosure requirements is the right response to handle the disclosure problem. Therefore, we suggest that the IASB explores this first before making the decision to develop a completely new approach to writing the disclosure requirements in the IFRS Standards.

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.

Yes, in our view, the way the IASB currently develops and drafts IFRS Standards contributes to the disclosure problem. One example is the reconciliation disclosure between the opening and ending period. There, all changes during the period are shown although several changes are not material. It would be better to show just the main information, i.e. the material changes. Furthermore, we find the objectives in new standards very generic, e.g. IFRS 16. Therefore, the Board should set clearer objectives so that entities are able to better understand the Board's intentions behind the disclosure requirements that they have developed.