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Banking supervision
And Accounting issues Unit

The Director

Paris, October 2nd 2017

FBF comments on the IASB's Discussion Paper DP/2017/1 IASB. DP "Disclosure Initiative - Principles of Disclosure".

Dear Mr Hoogervorst,

The FBF welcomes the opportunity to comment on the IASB Discussion Paper 2017/1 "Disclosure Initiative—Principles of Disclosure".

We support the initiative of the IASB to improve the structure and the presentation of disclosure of financial information and to develop clear principles of effective communication to have consistent, transparent and comparable information between entities of same industry and across periods. We share the views of the IASB on the description of the disclosure problems and their explanations.

However, we would like to provide the following key messages.

- The objectives and the role of the notes should be an integral part of the Conceptual Framework in order to assist standard setters in the development of future accounting standards and to assist preparers and users in understanding and applying the standards. Then, overarching disclosure principles which are derived from the objectives of the notes should be developed in amendments to IAS 1.
  Finally, a review of each existing IFRS standard should be undertaken to remove disclosures that will be irrelevant and non-compliant with the disclosure principles as such defined.

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- On a conceptual basis, financial statements form an integrated whole, comprising the primary financial statements and the notes. The objectives of the primary financial statements should focus on providing synthetic financial information that is supplemented in the notes. As regard to the primary financial statements, it is worth to note that the exposure draft of the Conceptual Framework (ED/2015/3) does not quote the statement of cash flows as an element of the primary financial statements, but seems to integrate it into other elements of information.

- Duplication of information, notably between information in management reports and information in the notes, is one of the main causes of the disclosure overload. Therefore, cross-referencing of information should be explicitly permitted and set out as a principle of disclosing financial information.
  Boundaries between financial statements – information that should be provided in the financial statements - and information that is provided outside financial statements should be better defined.

- One of the disclosure problems is that disclosures are often a check list of information that could obscure important information, there is a need to improve the application of the concept of materiality to the disclosures in order to provide more relevant financial information to users rather than strict compliance with IFRS disclosure requirement.

- We question the DP proposal to provide guidance on commonly used metrics in the statement of financial performance that would apply to all types of industries. Applying same subtotals or indicators to all the business sectors would not be appropriate to accurately depict the specificities of the business sectors performance. The entity must be able to present specific performance measures as long as the information is coherent from one period to another and the use of the measures is relevant to the entity.

We hope our comments will be helpful. We stay at your disposal if you would like to discuss any aspect of our response.

Yours sincerely,

Bertrand Lussigny

Appendix.

1. Overview of the 'disclosure problem and the objective of this project

Question 1
Paragraphs 1.5–1.8 of the IASB DP describe the disclosure problem and provide and explanation of its causes.
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?*
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
Are there ***any other disclosure issues*** *that the IASB has not identified in this Discussion Paper (sections 2–7) that you think* ***should be addressed as part of the Principles of Disclosure project****? What are they and why do you think they should be addressed?*

We agree on the IASB DP's description of the disclosure issues. The main causes have been properly identified: difficulties in the application of the judgment that could contribute to the disclosure overload, behaviour of preparers using disclosures as a check list, compulsory information to be produced, lack of guidelines on the format and the contents and lack of clear objectives. The responsibilities are shared by multiple parties, i.e. standards setters, preparers.

One of the disclosure problems is the disclosure overload that leads to accumulation of information in the financial statements over the years and inclusion of irrelevant information which obscured relevant information. Behaviour of preparers that have not been keen to apply judgment has contributed to the disclosure problem. But also, disclosures have been developed in the standards on an individual basis without following overarching principles and without challenging existing disclosures.

But, first and foremost, to address the disclosure problem, the definition of the objectives and the role of the notes is crucial to assist standard setters in the development of future accounting standards and to assist preparers and users in understanding and applying the standards. The objectives clarifying what the notes are used for should be an integral part of the Conceptual Framework.

Then, overarching disclosure principles which are derived from the objectives of the notes should be developed in amendments to IAS 1.

Finally, a review of each existing IFRS standard should be undertaken to remove disclosures irrelevant and non-compliant with the disclosure objectives and principles as such defined. Moreover, at each accounting standard level and prior to require more detailed and prescriptive set of disclosures, application guidance within the standard itself should be defined in order to explain and clarify why specific disclosure requirements are beneficial to this specific accounting standard.

Please refer to answers to question 3 and question 4.

2. Principles of effective communication

Question 3
Do you agree that the IASB ***should develop principles of effective communication*** *that entities should apply* ***when preparing the financial statements****? Why or why not?*
Do you agree with the ***principles listed in paragraph 2.6*** *of the IASB DP? Why or why not? If not, what alternative(s) do you suggest, and why?*
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****? If you support the issuance of non-mandatory guidance, please specify the form of non-mandatory guidance you suggest and give your reasoning.*
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, please specify the form of non-mandatory guidance you suggest and give your reasoning.*

Principles of effective communication.

We agree that principles of effective communication are highly important to help entities preparing the financial statements. We support the IASB initiative to develop such principles. We have no objection to the principles listed in paragraph 2.6 of the DP.

However, we are not convinced about the inclusion of effective communication principles in a non-mandatory guidance or in a general standard. IAS 1 standard already specifies general features of the notes, explaining their structure and the main characteristics of disclosures to be provided. Thus, we believe that the principles of effective communication should be developed within the existing IAS 1 standard. Therefore, such principles should remain relatively general to be applicable to each accounting standard. Then, at each accounting standard level and prior to require more detailed and prescriptive set of disclosures, application guidance within the standard itself should be defined in order to explain and clarify why specific disclosure requirements are beneficial to this specific accounting standard. Furthermore, these principles of effective communication should also provide preparers with a flexibility that let them present their financial statements in the most understandable way according to their own activities.

Formatting of financial statements.

Concerning formatting issues, while formatting is important to ensure coherent communication of information and comparability, it is important that the use of formatting should not prevent preparers from matching such formats to the own facts and circumstances of their entities. Providing non-mandatory guidance on formatting should not lead preparers to be tempted to replicate the format of illustrative examples, as this would be contrary to the objective pursued of effective communication. Presentation of financial statements should be driven by the entity's activity in order to provide understandable information to users. In that way, comparability should be reached among entities belonging to the same sector or conducting the same activities.

3. Roles of the primary financial statements and the notes

Question 4 *The IASB's preliminary view is that a **general disclosure standard** should:* *(a) specify that the '**primary financial statements'** are the statements of financial position, financial performance, changes in equity and cash flows;* *(b) describe **the role of primary financial statements** and the implications of that role as set out in paragraphs 3.22 and 3.24 of the IASB DP;* *(c) describe **the role of the notes** as set out in paragraph 3.28 of the IASB DP, as well as provide examples of further explanation and supplementary information, as referred to in paragraphs 3.26–3.27 of the IASB DP; and* *(d) 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 of the IASB DP?* *In addition, the IASB's preliminary view is that:* *(e) 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* *(f) 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 IASB's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?*

Contents of financial statements.

On a conceptual basis, we agree that financial statements form an integrated whole, comprising the primary financial statements and the notes. The notes provide complementary information concerning the primary financial statements and the entity itself. The primary financial statements consist of the statement of financial position, the statement on financial performance and statement of changes in equity.

It is worth to note that the exposure draft of the Conceptual Framework (ED/2015/3) does not quote the statement of cash flows as an element of the primary financial statements, but seems to integrate it into other elements of information. The position of the FBF always was to consider that this statement does not make sense for the banking industry because it does not give information regarding the liquidity or the capacity to generate future cash-flows. As stated in the Conceptual Framework, financial information is useful when it is relevant and is faithfully represented. Thus, information related to liquidity management or treasury management may take different formats depending on the type of industry concerned. For some industries, the format of the cash flow statement may be relevant while, for other industries, such as the banking industry, information related to future cash flows and liquidity risks would be more useful.

Objectives and role of the notes

As acknowledged by the DP, there is a need to clarify the objectives and the role of the notes in order to assist the IASB in the development of future IFRS standards and to assist preparers and users in understanding and applying the standards.

The objectives of the notes are to supplement the synthetic financial information provided in the primary financial statements, to give an insight on entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements, to provide information on risk management.

These elements have already been mentioned in the Exposure Draft on the Conceptual Framework for Financial Reporting. We believe that the IASB should continue the discussions in that direction and that the objectives of the notes should be defined clearly within the Conceptual Framework. Accordingly, a general disclosure standard dedicated to the information in the notes such as proposed by the DP would not be appropriate.

Besides, once the objectives of an effective financial communication will be defined, the IASB should undertake an overall revision of each IFRS standard to challenge the existing disclosures. The overall review should aim at ensuring that the disclosures requirements are set out in accordance with the disclosures objectives defined within the Conceptual Framework and that they are less prescriptive and introduce more judgment. Non-relevant disclosures requirements should then be removed from the existing standards.

4. Location of information

Question 5
Do you agree with the IASB'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****) of the IASB DP? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?*

Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4 of the IASB DP), 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) of the IASB DP?

Question 6
Do you agree with the IASB's preliminary view 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) of the IASB DP? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?*

Question 7
Do you think the IASB should ***prohibit the inclusion of any specific types of additional information in the financial statements*** *(for example information that is inconsistent with IFRS Standards)? If so, which additional information, and why?*

Cross-referencing.

In some circumstances, similar information is required in addition by market authorities or prudential authorities issuing specific regulations.

When, such information is disclosed outside of financial statements, entities commonly use cross-reference to avoid unnecessary duplication of information.

So, the proposed guidance on cross-referencing financial information outside the financial statements should:

- clearly set out the principle that cross-reference is explicitly permitted,
- remain principle-based and not refer to a specific document, such as “annual report”,
- allow information outside the financial statements if the information is available to users on the same terms, at the same time and continue to be available within financial statements.

Besides, where the information is part of the financial statements and cross-referenced, the mention of “information audited” should be indicated as far as it is required by local regulation.

Non-IFRS information.

We question the distinction made by the IASB related to the three categories of information in the financial statements. The category C seems to be limited to non-IFRS information whereas, the category B refers to additional information not required by an IFRS standard but compliant with the IFRS standards guiding principles. However, as acknowledged by the IASB, the distinction between those two categories is unclear, as some information may fall within these two categories.

Distinction between IFRS information and non-IFRS information may not always be clear and may be challenging. Thus, we consider that providing non-IFRS information within the financial statements should be limited to some circumstances, in accordance with local regulations.

Non-gaap measures when relevant are viewed as supplementing GAAP metrics in some circumstances in order to provide a full picture of the business and the performance of the entities. They are more often used in press releases or financial communication.

5. Use of performance measures in the financial statements

Question 8
Do you agree with the IASB’s preliminary view 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:*
(a) the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and
(b) the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.
Why or why not? If you do not agree, what alternative action do you suggest, and why?

Do you agree with the IASB’s preliminary view that it should 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 of the IASB DP? Why or why not? If you do not agree, what alternative action do you suggest, and why?*
Should the IASB prohibit the use of other terms to describe unusual and infrequently occurring items, for example those discussed in paragraph 5.27 of the IASB DP?
Are there any other issues or requirements that the IASB should consider in addition to those stated in paragraph 5.28 of the IASB DP when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

Question 9
Do you 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 of the IASB DP? Why or why not? If you do not agree, what alternative action do you suggest, and why?*

Subtotals in the statement(s) of financial performance.

The IASB DP proposes to provide guidance on commonly used metrics in the statement of financial performance, such as EBITDA or EBIT, which would apply to all types of industries.
We understand that the question raised by the DP is part of broader discussions about performance measures, notably, within the framework of the Primary Financial Statements Project.
Same subtotals or indicators cannot not be applied in the same way to all the business sectors as it would make no sense and as it would not accurately depict the specificities of the business sectors performance. Accordingly, we believe that the presentation of EBIT and EBITDA in the DP is more applicable to non-financial entities and would not be appropriate to financial entities.

The entity must be able to present specific metrics since the information is coherent from period to another one and the use of the metrics is relevant to the business sector to which the entity belongs.

Besides, IAS 1 paragraph 85A clearly states that: «*When an entity presents subtotals in accordance with paragraph 85, those subtotals shall: (a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS*".
We believe that this statement is clear enough and that that additional guidance would not add any value to the existing IAS 1 requirement.

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

Presentation of unusual or infrequently occurring items involves significant judgement and it would be difficult to define how entities should determine unusual items to be disclosed separately.

We would not be in position to provide further comments as the IASB has not developed any proposal on that matter.

Presentation of performance measures in financial statements.

The DP proposes the use of performance measures. But, the definitions of the indicators cannot be identical and applied by the same way to all the industries. To impose unique indicators does not make sense and is not representative of every type of industry.

The entity must be able to present specific performances measures as long as the information is coherent from a period to the other one, the use of these indicators is relevant and users of financial information can understand the measures used.

6. Disclosure of accounting policies

Question 10
The IASB's preliminary views are that:
*(a) a general disclosure standard should include requirements on **determining which accounting policies to disclose** as described in paragraph 6.16 of the IASB DP; and*
(b) 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):
(i) the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24 of the IASB DP; and
(ii) the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate?

*Do you agree with the IASB's preliminary view that a **general disclosure standard** should include requirements on **determining which accounting policies to disclose** as described in paragraph 6.16 of the IASB DP? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?*

*Do you agree with the IASB'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, please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c) of the IASB DP) and give your reasoning.*

Determining which accounting policies to disclose.

We share the view that presentation of accounting policies in financial reporting that consists in a generic description of accounting policies or a summary of the existing standards does generally not provide useful information. On the contrary, disclosures should describe key accounting policies that relate to only material activities or operations of the entities and that give insights into how the entity has exercised its judgment in selecting and applying accounting policies.

The materiality concept is a key driver in determining which information to disclose in order to ensure that relevant and useful information is provided.

General disclosure principles should recall that the objectives of disclosing accounting policies are to provide specific information on the entity about accounting policies that relate to transactions or events that are material to the entity or that result from an accounting policy choice. Therefore, guidance in determining which accounting policies should be disclosed should not be too prescriptive in order to allow entities to disclose entity specific accounting policies and to provide useful information to the users of the financial statements. Rather than defining categories, the DP should provide clarification on materiality and flexibility.

Location of accounting policy disclosures.

As far as the location of accounting policies disclosures is concerned, we do not believe that guidance is necessary. Entities should have some flexibility as to where they consider information about accounting policies should be best located to provide useful and understandable information to the users of financial statements. Accounting policy disclosures could be located in a single note at the beginning of the notes or individually, as in the same notes to which they relate, upon entities' choice.

Besides, as the proposals in the IASB DP are consistent with paragraph 113-114 of IAS 1, we do not believe that further guidance should be developed on that matter.

7. Centralised disclosure objectives

Question 11
Do you agree with the IASB's preliminary view 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? Why or why not? If you do not agree, what alternative do you suggest, and why?

Question 12
Which of ***Method A (focussing on assets, liabilities, equity, income and expenses) or Method B (focussing on information about and entity's activities****) do you support as the basis for developing centralised disclosure requirements and why?*

Question 13
Do you think that the IASB 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?

Currently disclosures are developed at standard-level. This has given rise to difficulties to understand the overall view of the disclosures and to inconsistencies in wording or disclosure requirements. As stated in the DP paragraph 7.10, centralised disclosure objectives should be used as *"underlying basis for developing and organising disclosure objectives and requirements in Standards that are better linked to the objectives of financial statements and the role of the notes"*.

Thus, we support the development of centralised disclosure objectives that consider the objectives of financial statements including the role of the notes, notably, in order to help entities to better understand the underlying basis of the publication of disclosures in the notes.

Therefore, centralised disclosure objectives should define overall underlying principles in order to promote a unified and consistent approach for publishing disclosures in the notes.

However, we believe that the centralised disclosure objectives thus defined should be an integral part of the Conceptual Framework. Indeed, the Conceptual Framework contains fundamental concepts that serve as a basis for developing principle-based standards and for providing clarity for preparers and users about the underlying principles of financial reporting.

Accordingly, we believe that a comprehensive review of the existing standards should be carried out in order to ensure that disclosure requirements comply with the centralised disclosure objectives previously defined and to consider the relationships between disclosures requirements in standards so that they are not redundant, inconsistent and burdensome.

Then, once the objectives are defined and integrated into the Conceptual Framework, the location of the disclosures requirements is not the primary issue. In some cases, it may be useful to address the disclosures on related topics in a single standard, as it is provided by IFRS 12 *Disclosure of Interest in Other Entities*.

Questions for respondents

Question 14
Do you have any comments on the NZASB staff's approach to developing the disclosure objectives and requirements in IFRS Standards? Do you think that the development of such an approach would encourage the provision of enhanced disclosures by entities?
Do you think the IASB should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures Project? Why or why not?

We have clear reservations about the approach proposed by the NZASB staff. We believe that this approach is not useful to address the disclosure problem. We believe that definition of the objectives and the role of the notes would better help entities to enhance accurate disclosures. Please refer to our answers to the question 4.

Question 15
Do you think the way the IASB ***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 stakeholder views that disclosures as currently drafted in IFRS contribute to the disclosure problem. Many disclosures in individual standards are largely prescriptive and contribute to undermining the principles based approach of IFRS.