

---

# **IASB's Disclosure Initiative: The disclosure problem and the role of academic research**

**Ann Tarca IASB Member  
IESEG/IAAER World Congress  
Paris 1-2 December 2022**

---

# Content of this presentation

- The role of accounting standards in promoting disclosure
  - Standard setters' use of principles and objectives
  - The disclosure problem
  - IASB responses to the disclosure problem
  - Two projects aiming to provide better disclosures
  - Role of academic research
-

---

## Role of accounting standard setters

- Incentives for companies to provide information are unlikely to produce all the information investors want to see
  - Regulators intervene in markets for public policy objectives
  - Accounting standard setters produce standards which aim to improve the information available to investors and others
  - The IASB issues accounting standards with following objective:  
*provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows... and in assessing management's stewardship of the entity's economic resources [IASB Conceptual Framework 3.2]*
-

---

# IFRS Presentation and disclosure objectives and principles

Standards need a balance between:

- Giving entities flexibility to provide relevant information to faithfully represent the entity's assets, liabilities, equity income and expenses
- Requiring information that is comparable from period to period and across entities. [CF 7.4]

Presentation and disclosure objectives support effective communication

- They help entities identify useful information and to decide how to communicate the information in the most effective way [CF 7.5]

Entity specific information is more useful than boilerplate information; duplication of information makes financial statements less understandable [CF 7.6]

---

## Principles and objectives in practice – Standard setting

In developing accounting standards, the IASB:

- Builds from the conceptual framework
- Uses principles to guide recognition, measurement and disclosure requirements
- Requires preparers to use their judgement in applying accounting standards, including decisions about what to disclose
- Relies on an overarching materiality concept
- an entity need not provide a specific disclosure required by IFRS if the information resulting from that disclosure is immaterial [IAS 1:31]

---

## Principles and objectives in practice – Evidence of a disclosure problem

Feedback to the IASB:

- Too much irrelevant information
- Not enough relevant information

Research relevant to IASB work:

- Usefulness of information
  - Comparability
  - Compliance
  - Costs vs benefits
  - Institutional setting
-

---

## IASB response to the disclosure problem

### IASB Disclosure Initiative:

- Changes to IAS 1 – only material information needs be disclosed
  - IFRS Practice Statement 2 *Making Materiality Judgements*
    - a guidance statement to help preparers make materiality judgements
  - Better Communication in Financial Reporting Case Studies
  - Targeted Standards-level review of disclosure project
-

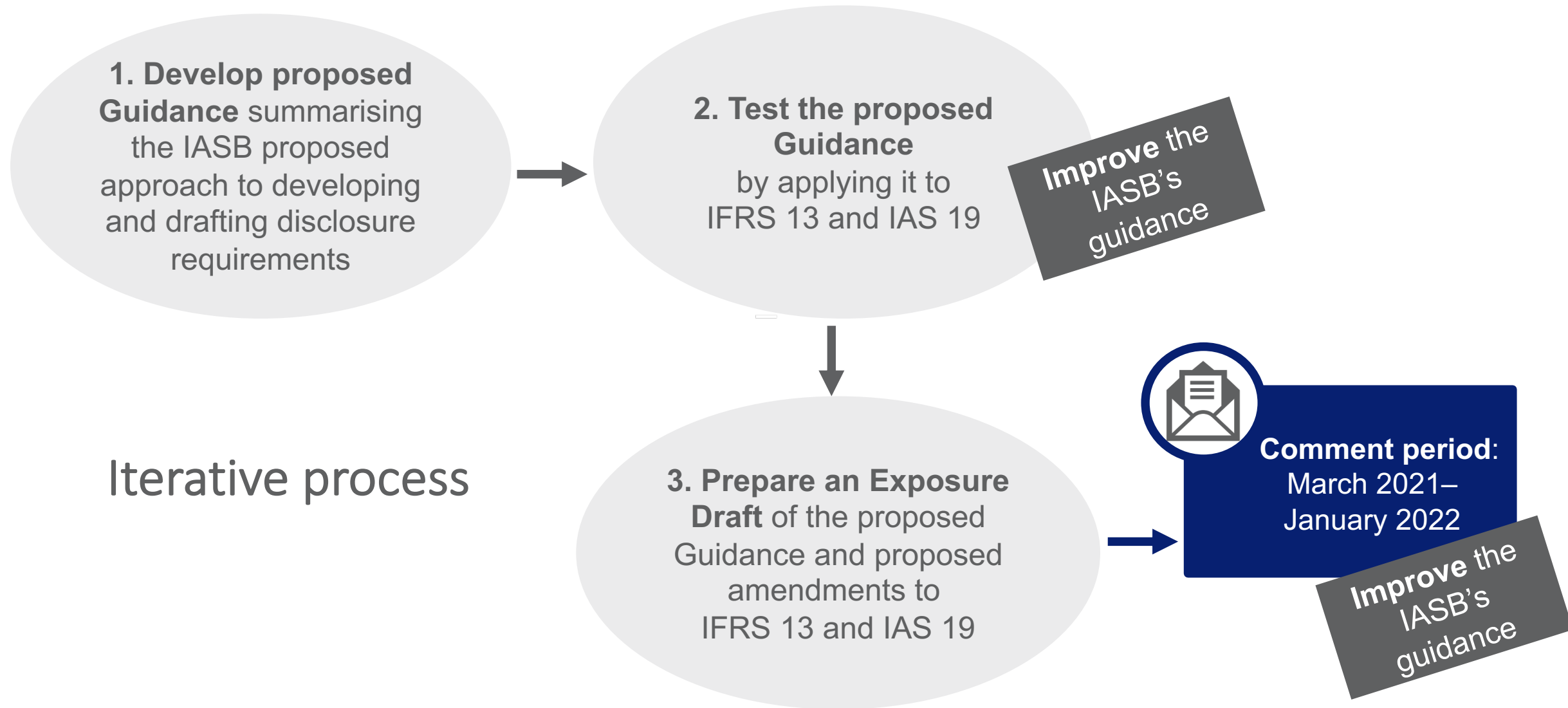
---

# Targeted Standards-level Review of Disclosure project








# Targeted Standards-level Review of Disclosure project



# Overview of the proposed Guidance for the Board

What stakeholders say	IASB's main proposals
 <p>Companies may not always understand why information is useful, so they find it difficult to make effective judgements</p>	<p><b>A</b> <b>Engage investors even earlier</b> in the standard-setting process, and then develop specific disclosure objectives based on their information needs</p>
 <p>The easiest way to achieve compliance is to apply disclosure requirements like a checklist</p>	<p><b>B</b> Require companies to comply with disclosure objectives that can only be met <b>by applying judgement</b></p>
 <p>Complying with high volumes of prescriptive requirements does not leave time to apply materiality judgements</p>	<p><b>C</b> <b>Minimise requirements to disclose particular items of information</b>, thus removing a perceived compliance burden</p>

# Feedback on the Exposure Draft



## General support for

Engaging early with users of financial statements and other stakeholders when developing disclosure requirements

Developing disclosure objectives explaining user information needs

Integrating development of disclosure requirements with the rest of the accounting model

Considering implications for digital reporting



## On the disclosure problem

The proposed approach may not solve the disclosure problem

Entities are likely to continue to apply a checklist approach to disclosing items of information specified in an Accounting Standard

Ineffective materiality judgements are a root cause of the disclosure problem

A change of behaviours across the financial reporting ecosystem needed to fully address the disclosure problem

# Feedback on the Exposure Draft



## On the disclosure objectives

Disclosure objectives that describe user information needs would help entities provide relevant information

Overall disclosure objectives are too broad to be effective as requirements

Specific disclosure objectives and explanations of what the information will help users do, should be drafted with more precision



## On the items of information

Focusing compliance on disclosure objectives rather than specified items of information would:

- make the requirements costly to apply and difficult to operationalise and enforce;
- decrease the comparability of information;
- undermine the benefits of digital reporting; and
- potentially create conflicts with the prescriptive requirements of local laws and regulations.

The IASB discussed the feedback in:

February 2022

Preparer fieldwork findings, and feedback provided in comment letters from, and outreach activities with, users of financial statements

May 2022

Feedback provided in remaining comment letters

---

# Role of research

## Explore issues relevant to standard setters

### *Usefulness of information - relevance*

Requests to standard setters for new/different requirements.

Usefulness explored through capital market studies. Studies with investors (interviews, behavioural experiments). Evidence added to feedback from other sources.

### *Comparability – enhancing qualitative characteristic*

To allow investors to compare entities.

Important and hard to measure - studies of specific disclosures or accounting system comparability. Uniformity vs useful information. (Like things look alike). Diversity in disclosure may not be bad.

---

# Role of research

## Explore issues relevant to standard setters

### *Compliance – institutional setting*

Accounting standards are mandatory requirements.

Compliance can vary. Non-compliance may point to application issues. How should the standard setter respond?

### *Cost vs Benefit*

Standard setters determine a cost benefit trade-off based on a range of information.

Decisions reflect quality of information and analysis.

Independent evidence from research can be useful in cost benefit decisions.

---

# Research about disclosure

## *Disclosure objectives*

How well do they work in practice? Would comparability decline with only disclosure objectives? Would usefulness of information improve?

## *Disclosure objectives and specific requirements*

What is an effective combination? In what settings are specific requirements useful? Why do checklists lead to boilerplate disclosures?

## *Materiality judgements*

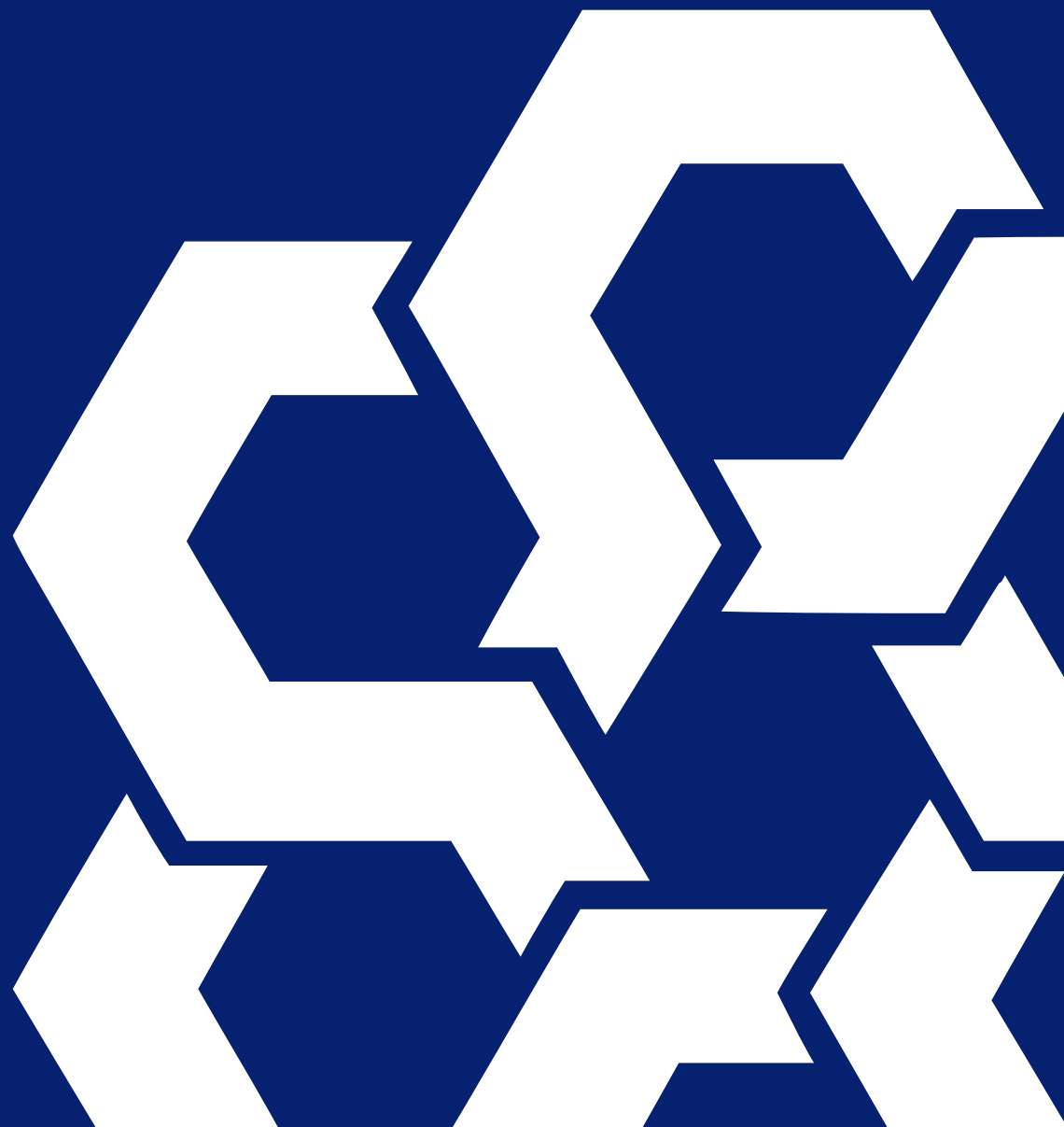
What factors contribute to effective materiality judgements?

## *Disclosure quality*

Can new measures be developed? Scope for more use of technical tools for analysis of disclosure practices used in conjunction with manual analysis.

---

## Goodwill and Impairment project - disclosure





# The IASB's preliminary views

## Additional disclosure objectives

- Add additional disclosure objectives to IFRS 3 *Business Combinations* that would require entities to disclose information that would help users understand:
  - the benefits an entity expected from a business combination when agreeing the price to acquire that business; and
  - the extent to which management's objectives are being met.

## Disclosure about performance of business combinations

- Require entities to disclose in the year of a business combination, the strategic rationale and objectives for that business combination and the metrics management plan to use to monitor achievement of those objectives.
- In subsequent years, disclose management's review of the entity's performance against those objectives (actual performance).
- The information that would be disclosed is the information an entity's Chief Operating Decision Maker (CODM) is reviewing to assess the performance of the business combinations that the CODM is reviewing.

## Disclosure about expected synergies

- Require entities to disclose in the year of a business combination quantitative information about the synergies expected as a result of the business combination.

# Feedback on preliminary views

## Overall message

Many respondents, including almost all users, agreed with the preliminary views. However, many respondents, including almost all preparers, disagreed. Respondents identified practical challenges with the preliminary views.

## Summary of feedback

- Most preparers disagreed with the preliminary views because they expect the **costs of the disclosures to outweigh the benefits**:
  - **Monetary costs**: for example, costs of collecting and auditing the information; and
  - **Proprietary costs**: for example from disclosing information some consider to be commercially sensitive and potential litigation from disclosing information some consider to be forward-looking.
- Some respondents, mainly in Europe, were also concerned that the required disclosure will put entities applying IFRS Standards at a disadvantage compared to other entities, notably those applying US GAAP.
- Many respondents said information about the performance of business combinations should be provided in **management commentary rather than financial statements**.

# Practical concerns

## Summary of feedback

Preparers responding to the Discussion Paper identified four practical concerns about disclosing the information described on slide 18:

- **commercial sensitivity**—that information could contain sensitive information that, if disclosed, could harm the entity. Information most likely to be commercially sensitive is quantitative information about management's targets
- **forward-looking information**—that information could contain information about the future that, if disclosed, could increase litigation risk. Also in some jurisdictions, providing such information in the financial statements would not allow entities to benefit from 'safe harbour' protections
- **integration**—an entity may not be able to disclose information that is representative of the performance of a business combination if the acquired business is integrated into the entity's existing operations
- **auditability**—some information that would be required by the preliminary views may be costly, or difficult, to audit.

---

- Academic research relevant to standard setting

*Costs vs benefits of proposed disclosures*

- Useful information for investor decision making
- Materiality judgements
- Disclosure quality
- Disclosure package - location of information (management commentary vs audited financial statement)
- Proprietary costs (commercial sensitivity)
- Comparability with US GAAP or other national requirements
- Complimentary to national requirements (eg stock exchange requirements)

# Conclusion

---

- The disclosure problem
  - Demand vs supply
  - Incentives
- Role of standard setters
  - Conceptual Framework
  - Understanding and balancing stakeholder needs
- Role of academic research
  - Independent view
  - Skills to find evidence and provide insights

# References

---

- Conceptual Framework <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards/english/2022/issued/part-a/conceptual-framework-for-financial-reporting.pdf>
- Goodwill and Impairment project <https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/>.
- IASB 2017 Disclosure Initiative Principles of Disclosure Discussion Paper. Available at:  
<https://www.ifrs.org/content/dam/ifrs/project/disclosure-initiative/disclosure-initiative-principles-of-disclosure/discussion-paper/published-documents/discussion-paper-disclosure-initiative-principles-of-disclosure.pdf>
- IASB 2017 Better Communication in Financial Reporting. Case Studies. Available at:  
<https://www.ifrs.org/content/dam/ifrs/project/disclosure-initiative/better-communication-making-disclosures-more-meaningful.pdf>
- IASB 2013 Disclosure Forum. See <https://www.iasplus.com/en/events/iasb-outreach/iasb-disclosure-forum>
- Targeted Standards-level Review of Disclosure project <https://www.ifrs.org/projects/work-plan/standards-level-review-of-disclosures/>

---

## Follow us online

 [ifrs.org/academics](https://ifrs.org/academics)  IFRS Foundation

 @IFRSFoundation  International Accounting Standards Board

 IFRS Foundation  International Sustainability Standards Board