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2 October 2017

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Chairman
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30 Cannon Street
London EC4M 6XH
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Re: Comments on the IASB's DP *Disclosure Initiative – Principles of Disclosure*

1. The Accounting Standards Board of Japan (the 'ASBJ' or 'we') welcome the opportunity to provide our comments on the International Accounting Standards Board ('IASB')'s Discussion Paper *Disclosure Initiative – Principles of Disclosure* ('the DP'), issued in March 2017.

2. We would like to highlight the following overall comments to the DP. Our comments on the specific questions to the DP are provided in the Appendix of this comment letter.

Overall picture of the project

3. The IASB should communicate the overall work plan regarding the Disclosure Initiative project so that constituents can predict the final outcomes of the project. For example, regarding the issues addressed in Section 5 of the DP, the IASB is concurrently deliberating similar issues in the Primary Financial Statements project. We note that it was difficult to form our views because the IASB's direction was changing during the comment period. We expect the IASB ensures to use our comments on performance measures as an input to the Primary Financial Statement project.

Whether to include in authoritative accounting standards

4. In the DP, there are several instances where the IASB states that its preliminary view is that the proposed concept 'should be provided, either in a general disclosure standard or in non-mandatory guidance'. However, accounting standards are often incorporated into laws and regulations and used as the basis for auditing. Accordingly, whether the proposed concept is included in authoritative accounting standards (including the general disclosure standard) is critical to stakeholders.

5. We think that the IASB should focus on developing authoritative accounting standards. From this perspective, we believe that:

   (a) the IASB should clarify the boundaries of financial statements (which include the notes), and focus on information to be provided within the financial statements, not on information to be provided outside the financial statements. We note that this does not mean that information provided outside the financial statements is not useful; and

   (b) considering that accounting standards are often incorporated into laws and regulations and certain entities are required to comply with those accounting standards, principles that are desirable but are difficult to determine whether they have actually been satisfied should not be included in accounting standards.

Role for the IASB and role for entities

6. To achieve better communication, we believe that there are separate roles for the IASB and entities, respectively. The discussions in the DP should distinguish between those that should be included in the *Conceptual Framework for Financial Reporting* ('the *Conceptual Framework*') which would assist the IASB in developing accounting standards ('the IASB's decision-making process') and those to be included in accounting standards and require entities to comply with when entities determine the contents of their disclosures in the financial statements ('the entity's decision-making process').

Assumptions on users

7. When discussing disclosures in this project, consistent with the *Conceptual Framework*, the IASB should assume that users have a reasonable knowledge of business and economic activities and review and analyse the information diligently. Furthermore, consistent with the objective of general purpose financial reporting, the IASB should aim to provide the information set that will meet the needs of the maximum number of primary users.

Presentation of operating profit

8. The IASB is considering whether to introduce a new performance measure in the statement of financial performance. We believe that the IASB should first clarify the objective of presenting such a performance measure. We also believe that the IASB should place priority on the presentation of a performance measure that represents 'sustainable income arising from operating activities', which is a useful starting point in assessing the prospects of future cash flows.

9. We acknowledge that constituents strongly support the usefulness of operating profit that excludes unusual or infrequently occurring income and expense items, which is consistent with the concept of 'sustainable income arising from operating activities'. In particular, we acknowledge that there are strong needs for this performance measure from users as the starting point for financial statement analyses. Accordingly, we urge the IASB to continue to consider, with high priority, whether to define operating profit as a performance measure to be presented in the statement of financial performance.

10. We acknowledge that one of the reasons the IASB tentatively decided that it would not require the presentation of operating profit was that operating profit may not be useful for all entities. However, we believe that it is possible to require the presentation of operating profit in IFRS Standards by requiring the presentation of operating profit in principle, but at the same time, permitting an option not to present operating profit if the entity can explain why that would be more relevant (for example, in the case where the entity is a financial institution or an investment entity).

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11. We hope our comments contribute to the IASB’s deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,

Yukio Ono

Chairman of the Accounting Standards Board of Japan

Appendix

Section 1: Overview of the 'disclosure problem' and the objective of this project

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 *Presentation of Financial Statements* or in a new general disclosure standard) would address the disclosure problem? Why or why not?

<u>The disclosure problem and its causes</u>

12. In our jurisdiction, we are not aware of any reservations with the description of the disclosure problem described in the DP.

13. However, regarding the causes of the disclosure problem, given the fact that the disclosure problem is not observed for limited entities but is observed universally, it is natural to conclude that there are problems with IFRS Standards.

14. The DP describes that the disclosure problem arises because stakeholders regard financial statements as compliance documents. However, the IASB should not ignore the fact that accounting standards are often incorporated into laws and regulations and, accordingly, financial statements are indeed compliance documents. We think the IASB should discuss better communication taking into account the fact that financial statements often are compliance documents.

15. To improve the practice of applying IFRS Standards, we believe that there is a role for the IASB as well as a role for entities, respectively, and as described in paragraph 6 of this comment letter, in discussing better communication we believe the roles should be clarified. If the IASB prescribes in accounting standards what entities

should do, that could address certain disclosure problem. However, if the IASB prescribes in accounting standards what the IASB should do, that is unlikely to address the disclosure problem.

16. Also, constituents in our jurisdiction have stated that the lack of clear disclosure objectives in individual Standards makes the intentions of the disclosure requirements unclear (please refer to paragraph 1.8(a) of the DP). Disclosure objectives should be specifically prescribed in individual Standards, including the reasons for prescribing specific disclosure requirements and how the disclosed information is expected to be used by users (please refer to paragraphs 69(c), 77 and 86 of this comment letter).

Whether to include in authoritative accounting standards

17. In the DP, there are several instances where the IASB states that its preliminary view is that the proposed concept 'should be provided, either in a general disclosure standard or in non-mandatory guidance' (for example, the principles of effective communication in Section 2). However, in many jurisdictions, accounting standards are often incorporated into laws and regulations (which include the rules of the stock exchanges) and are often used as the basis for auditing when financial statements are required to be audited. Accordingly, whether the proposed concept is included in authoritative accounting standards (including the general disclosure standard) is critical to stakeholders.

18. We think that the IASB should focus on developing authoritative accounting standards. From this perspective, we believe that:

    (a) the IASB should clarify the boundary of financial statements (which include the notes), and focus on information to be provided within the financial statements, not on information to be provided outside the financial statements. We note that this does not mean that information provided outside the financial statements is not useful. We acknowledge that information provided outside the financial statements, especially information the entity voluntarily decides to disclose to provide information that is useful for the users' decision-making, is gradually increasing. Our understanding is that users make decisions using both information provided within the financial statements and information provided outside the financial statements together;

(b) considering that accounting standards are often incorporated into laws and regulations and certain entities are required to comply with those accounting standards, if the IASB were to include principles that are desirable but are difficult to determine whether they have actually been satisfied, such as the principles of effective communication described in Section 2 of the DP in accounting standards, it would be difficult not only for the entities themselves but also for their auditors to assess whether the entities have complied with the accounting standards. (Please refer to paragraph 25(b) of this comment letter); and

(c) given that the IASB's resources are limited, the IASB should focus, in principle, on developing authoritative accounting standards rather than non-mandatory guidance (such as Practice Statements and educational materials). We note that any non-mandatory guidance the IASB issues, however clearly it is stated that it is non-mandatory, may be interpreted as being more authoritative than other non-mandatory guidance anyone other than the IASB issues.

Question 2
Section 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?

Role for the IASB and role for entities

19. As described in paragraph 6 of this comment letter, to achieve better communication, we believe that there are separate roles for the IASB and entities, respectively. We think the discussions in the DP seem to be confusing and mixing these roles. Accordingly, the discussions in the DP should distinguish between those that should be included in the *Conceptual Framework* which would assist the IASB in developing accounting standards ('the IASB's decision-making process') and those

to be included in accounting standards and require entities to comply with when entities determine the contents of their disclosures in the financial statements ('the entity's decision-making process').

20. For example, the following discussions in the DP contain conceptual issues to be considered in developing accounting standards by the IASB and, therefore, we think it is inappropriate to mandate entities by including them in the accounting standards:

    (a) For some of the principles of effective communication described in Section 2 of the DP, the IASB discussed whether they should be included in the *Conceptual Framework*. The IASB decided to include them in the IASB's Exposure Draft *Conceptual Framework for Financial Reporting* ('the *Conceptual Framework* ED') published in March 2015;

    (b) The role and its implications to the primary financial statements, and the role and content of the notes described in Section 3 of the DP provide the underlying basis for developing accounting standards. Therefore, we believe they contain what the IASB should consider in developing accounting standards; and

    (c) The centralised disclosure objectives in Section 7 of the DP could be used as the underlying basis or framework for developing and organising disclosure objectives and requirements in each Standard. Therefore, we believe that they would assist the IASB in developing accounting standards based on consistent concepts.

<u>Assumptions on users</u>

21. Paragraph OB5 of the *Conceptual Framework* (or paragraph 1.5 of the *Conceptual Framework* ED) states that the primary users of financial statements are existing and potential investors, lenders and other creditors.

22. Paragraph 6.13 of the DP uses phrases such as 'the primary users of financial statements are not expected to be IFRS experts' and 'users of financial statements who are unfamiliar with IFRS requirements'. However, we believe that, consistent with the *Conceptual Framework*, the IASB should assume that users are those 'who have a reasonable knowledge of business and economic activities and who review

and analyse the information diligently' (paragraph QC32 of the *Conceptual Framework* or paragraph 2.35 of the *Conceptual Framework* ED), which, we understand, means that users are familiar with IFRS Standards. Regardless of whether the IASB agrees with our view on users, we think the IASB needs to clarify who the users are.

23. In addition, we note that actual users are diverse in their knowledge about IFRS Standards and their approaches to analysing information may vary and, accordingly, the information needs may be different among users. On this point, we suggest the IASB take into account paragraph OB8 of the *Conceptual Framework* (or paragraph 1.8 of the *Conceptual Framework* ED), which states that the IASB 'will seek to provide the information set that will meet the needs of the maximum number of primary users'.

Section 2: Principles of effective communication

Question3
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.

24. We support the IASB's effort to improve the effectiveness of the communication between entities and users. We also think that both the principles of effective communication and the guidance on formatting shown in the DP are essential, and in our jurisdiction, we are not aware of any reservations with the proposed principles and guidance.

25. On the other hand, as described in paragraph 20(a) of this comment letter, we believe that the proposed principles and guidance should not be included in accounting standards for the following reasons:

(a) The principles and guidance are abstract and no more than common sense. Even if the IASB included the principles and guidance in accounting standards and required entities to comply with them, the behaviour of constituents may not change at all. In some jurisdictions, the behaviour of constituents may change, but we do not think that it is necessary to include the principles and guidance in the accounting standards; and

(b) As described in paragraph 18(b) of this comment letter, accounting standards are often incorporated into laws and regulations and certain entities are required to comply with those accounting standards. If the principles and guidance are included in accounting standards, it would be difficult not only for entities but also for their auditors to assess whether the entities have actually complied with the accounting standards.

26. We also think that the guidance on formatting described in paragraphs 2.20 to 2.22 of the DP is too detailed to be included in an IASB publication. It is sufficient to provide the description and the advantages and disadvantages of using each format, and there is no need to provide examples regarding when each format may be used.

27. The IASB used the term 'efficient and effective communication' in the *Conceptual Framework* ED (such as in paragraph 7.18). We suggest the IASB to use consistent terminology.

Section 3: Roles of the primary financial statements and the notes

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?

Scope of primary financial statements

28. In our jurisdiction, we are not aware of any reservations on the IASB's preliminary view not to change the scope of statements comprising primary financial statements.

29. However, the IASB should not decide on the scope of statements comprising primary financial statements solely based on common practice and understanding as described in paragraph 3.19 of the DP. The IASB should decide on the scope of statements comprising primary financial statements after clarifying what primary financial statements as a whole purport to represent, considering that all of the statements comprising primary financial statements are interrelated.

The role and implication of the primary financial statements, and the role and content of notes

30. As described in paragraph 19 of this comment letter, we think the discussions in the DP should distinguish between those that should be included in the *Conceptual Framework* which would assist the IASB in developing accounting standards and those to be included in accounting standards and require entities to comply with when entities determine the contents of their disclosures in the financial statements.

31. As described in paragraph 20(b) of this comment letter, we believe that the role and its implications to the primary financial statements, and the role and content of the notes described in the DP may assist the IASB in developing accounting standards. Even if the IASB included these descriptions in accounting standards and required entities to follow them, entities cannot apply judgement regarding whether information should be provided in the primary financial statements or the notes (unless they are specifically permitted by accounting standards) and, therefore, the IASB should not include these descriptions in accounting standards but should consider including them in the *Conceptual Framework*.

Relevance of information in the primary financial statements and the notes

32. Paragraph 3.20 of the DP states that users of financial statements pay more attention to the primary financial statements than to the notes. Based on this understanding, paragraph 3.24(a) of the DP further goes on to state that information in the primary financial statements is more prominent than information in the notes.

33. We are concerned that this description may be interpreted to mean that the relevance of information in the primary financial statements is higher than that in the notes. We acknowledge that, to provide information as early as possible, primary financial statements may be provided earlier than the notes, or in some cases only the primary financial statements are provided. However, we believe that financial statements are designed so that they provide meaningful information when both primary financial statements and notes are presented together as a whole.

34. In this context, primary financial statements and notes have separate roles. Primary financial statements provide summary information about items subject to recognition and measurement (with a total for these items), and notes provide further information

about items recognised in the primary financial statements and supplementary information about items not recognised in the primary financial statements. There is no priority in the relevance of information depending on whether the information is provided in the primary financial statements or in the notes. The IASB should view primary financial statements and the notes together as a whole when developing accounting standards.

Section 4: Location of information

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)?

35. We agree that the general disclosure standard should include principles that must be satisfied when an entity provides information that is necessary to comply with IFRS Standards ('IFRS information') outside the financial statements. However, we have the following views on the requirements proposed in paragraph 4.9 of the DP.

Ensuring that IFRS information is available over time

36. If all IFRS information is not contained in the financial statements, it is crucial to ensure that IFRS information provided outside the financial statements is available as long as financial statements are available. In this context, we believe IFRS information should be provided within a single document that includes the financial statements.

37. When some IFRS information is provided outside the financial statements, to ensure that users can obtain all IFRS information at the time financial statements are issued and thereafter as long as financial statements are available, information must be incorporated by cross-referencing and such information must be available to users of financial statements on the same terms as the financial statements and at the same time.

38. Specifically, we think that the information provided outside the financial statements must be readily available as long as the financial statements are available, there should be no opportunity for the information to be altered or lost and, if any information is altered, it must be traceable. In our view, the most certain way to meet these conditions is to provide all IFRS information within a single document including the financial statements. We believe this approach would be easy for users to understand.

Extent to which cross-referencing should be permitted

39. As described in paragraph 4.8 of the DP, excessive or inappropriate cross-referencing could make the financial statements fragmented and difficult to understand. However, we believe that the concern would be limited as far as it is provided within a single document including the financial statements, as we suggest in paragraph 36 of this comment letter. Accordingly, cross-referencing can be permitted as long as it does not reduce the understandability of financial statements, for example, by obscuring useful information or presenting material information outside the financial statements.

40. If the IASB were to permit cross-referencing more broadly than our suggestion, we think the IASB should consider and specifically indicate the extent to which cross-referencing is permitted, taking into account the increased burden on users to find IFRS information and the effects of audits as described later in paragraph 43 of this comment letter.

41. We acknowledge that cross-referencing is an effective means to avoid duplication of information and to reduce the total number of pages of the financial statements. However, we note that cross-referencing would not reduce the amount of information

provided by the entity and thus does not essentially address the issue of disclosure overload.

The term 'annual report'

42. In our jurisdiction, many entities voluntarily disclose a document labelled 'Annual Report', which is substantially similar to an integrated report, separately from statutory reports. If the IASB used the term 'annual report' to describe the extent to which cross-referencing is permitted, it may be misunderstood to mean that cross-referencing from financial statements in a statutory report to a document that is voluntarily disclosed is permitted. Accordingly, the IASB should not use the term 'annual report' but consider describing the extent to which cross-referencing is permitted using a principles-based phrase. We note that this does not mean that the 'Annual Report' is not useful.

Effects of audits

43. We understand that not all financial statements prepared in accordance with IFRS Standards would be subject to audit. However, if financial statements were subject to audit, we think that IFRS information provided outside the financial statements would also be subject to audit. Accordingly, when the IASB determines the extent to which cross-referencing is permitted, the IASB should align with auditing standard-setters, including the International Auditing and Assurance Standards Board (IAASB), and make that determination considering the feasibility of audits. We think that the concerns about the feasibility of audits would be alleviated as far as IFRS information is provided within a single document including the financial statements, as we suggest in paragraph 36 of this comment letter.

44. Also, regarding the proposed requirement in paragraph 4.9(b) of the DP, we think that whether the understandability of an 'annual report' as a whole is enhanced and whether the financial statements remain understandable and the information is faithfully represented may raise issue from the perspective of the feasibility of audit. The IASB should work with auditing standard-setters and consider whether the proposed requirement could be included in the accounting standards.

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?

45. We will provide our comments to this question in our comments to Question 7.

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?

Information that is generally not included in financial statements

46. Under existing IAS 1, whether information should be included in the financial statements is determined based on whether such information would be useful in assessing the prospects for future cash flows. Consequently, if an entity determines that certain information would be useful for users of financial statements, that information could become IFRS information. Therefore, we think that the IASB cannot explicitly define information that should (or should not) be provided within financial statements as it attempted to do in the DP.

47. On the other hand, we think there is 'information that is generally not included in financial statements', although we do not think such information should be prohibited from being included in the financial statements. However, if an entity decides to

include such information in the financial statements, we think that the constraints such as those proposed in paragraph 4.38 of the DP should be imposed to make clear that such information is ‘information that is generally not included in financial statements’. For example, we think the following types of information are ‘information that is generally not included in financial statements’:

(a) Non-financial information

We think financial statements are intended to report financial information and, accordingly, non-financial information would be ‘information that is generally not included in financial statements’. (In this context, we define financial information as information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events, conditions or circumstances, taking into account the definition of ‘historical financial information’ in International Standard on Auditing (ISA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.* We also define non-financial information as information other than financial information.) Nevertheless, we believe that an entity should be permitted to provide in the notes non-financial information that are used as inputs to the recognition and/or measurement of the elements of financial statements.

(b) Forward-looking information

We think financial statements are intended to report the financial information of an entity as of and up to the end of the reporting period (that is, current information). Accordingly, we believe that, while an entity should be permitted to provide in the notes forward-looking information that is used as an input to the recognition and/or measurement of the elements of financial statements that existed or had occurred at the end of, or during, the period in order to report current information (for example, future earnings information used to assess the collectability of deferred tax assets or to estimate the value in use of tangible assets, and forward-looking information that is used to estimate the expected credit losses on financial assets), forward-looking information that is not used as an input to the recognition and/or measurement of the elements of financial statements (for example, plans or strategies regarding the risk exposure) would be 'information that is generally not included in financial statements'.

(c) Financial information that is not in compliance with IFRS Standards

Financial information that is not in compliance with IFRS Standards is financial information other than information necessary to comply with IFRS Standards (that is, IFRS information). Examples of such information include the following:

(i) Measurements using alternative measurement bases that are not permitted under IFRS Standards;

- For example, revenue and profits for the period translated at exchange rates used to translate corresponding amounts in the prior year

(ii) Information based on accounting policies the entity did not select when IFRS Standards permit multiple alternative accounting policies; and

- For example, inventories measured using the weighted average cost formula, when the inventories are measured using the first-in, first out (FIFO) formula on the face of the statement of financial position in accordance with IAS 2 *Inventories*

(iii) Information presented in a way that is not permitted under IFRS Standards

- For example, revenue in gross presentation when IFRS Standards require net presentation

48. We do not think that 'information that is generally not included in financial statements' is not useful. Our understanding is that entities are providing more of this type of information, and we think better communication between entities and users cannot be achieved without taking into account such information. At the same time, if 'information that is generally not included in financial statements' is included in the financial statements without distinguishing it from other information or such information is provided excessively, users' decision-making may be misled by such information. Accordingly, we think it is important to clarify the boundaries of financial statements.

49. If an entity provides ‘information that is generally not included in financial statements’ in the financial statements, we think there needs to be some constraints, such as those in paragraph 4.38 of the DP, in order to prevent such information from being provided excessively or inappropriately. We think that such constraints would be effective to distinguish between financial statements and ‘information that is generally not included in financial statements’ and would assist entities in applying paragraph 50 of IAS 1, which states that ‘it is important that users can distinguish information that is prepared using IFRSs from other information that may be useful to users but is not the subject of those requirements.’ We emphasise that such constraints should be imposed solely for the purpose of restricting information that is provided in the financial statements. We have no intentions to restrict entities from voluntarily providing ‘information that is generally not included in financial statements’ outside the financial statements.

Effects of audits

50. To determine the ‘information that is generally not included in financial statements’, the feasibility of audit and the risk that users may be misled by unaudited information as though such information had been audited if such information were to be included in the financial statements should be considered. Accordingly, the IASB should work with auditing standard-setters and consider this point.

Section 5: Use of performance measures in the financial statements

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.

51. If the IASB were to introduce any comparable performance measure, the IASB should first clarify its objective. In this context, we believe that the IASB should place priority on the presentation of a performance measure that represents 'sustainable income arising from operating activities', which is a useful starting point in assessing the prospects of future cash flows. We think that the performance measure that could achieve the objective is operating profit that excludes unusual or infrequently occurring items, and such performance measure would be relevant for most entities. We believe it is possible to require the presentation of operating profit in IFRS Standards by requiring the presentation of operating profit in principle, but

at the same time, permitting an option not to present operating profit if the entity can explain why that would be more relevant. In this way, the IASB should continue to consider defining operating profit.

52. Regarding our comment in the previous paragraph, details are provided in paragraphs 53 to 65 of this comment letter.

Comparable performance measures

53. If the IASB were to introduce any comparable performance measure, we believe that the IASB should first clarify the objective of presenting such performance measure. Whether specific line items should be included in that performance measure (based on whether they provide relevant information) should be determined in the light of the stated objective. We think that the IASB should not introduce a new performance measure simply because many stakeholders already use that measure, without analysing why that performance measure is widely used in practice.

54. Moreover, we are concerned that requiring all entities to present a specific line item in the same location in the statement of financial performance may lead to make unlike things look alike (that is, uniformity), which is denied in paragraph QC23 of the *Conceptual Framework* (or paragraph 2.26 of the *Conceptual Framework* ED). If accounting standards were to require all entities to present a specific performance measure, the objective to be achieved by such performance measure may not represent the substance of entities and, as a result, irrelevant information may be presented or the negative consequences of uniformity may arise.

55. We think that EBIT and EBITDA proposed in the DP could be useful for most entities but may not necessarily be useful for all entities, such as a financial institution (including other entities providing financial services) or an investment entity (including other entities that conduct significant investing activities). Therefore, we are concerned that, if the IASB were to require all entities to present such performance measures, it would result in uniformity (rather than comparability).

56. In order to address the concern described in the previous paragraph, if the IASB were to introduce any comparable performance measure, we suggest the IASB to require entities to present the performance measure in principle, but at the same time, permit an option not to present the performance measure if the entity can explain why that

would be more relevant. Thus, we think that the IASB could introduce a performance measure that may not be appropriate for all entities or industries as far as that performance measure is relevant for most entities.

Unusual or infrequently occurring items in the statement of financial performance

57. We appreciate the IASB's effort to require entities to present unusual or infrequently occurring items so that users can calculate 'sustainable income'. We think 'sustainable income' is useful to predict income that is generated permanently, and would assist users in assessing the prospects for future cash flows.

58. However, in relation to unusual or infrequently occurring items, we think further discussions are needed, for example:

    (a) how to treat 'one-off' items, for example, revenue based on special demand to prepare for the Olympic games and last-minute purchases before increases in consumption tax rates;

    (b) how to prescribe the threshold for determining 'unusual' or 'infrequently occurring';

    (c) the relationship between extraordinary items prohibited in paragraph 87 of IAS 1 and unusual or infrequently occurring items;

    (d) the relationship between profit or loss from discontinued operations based on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and unusual or infrequently occurring items; and

    (e) whether items previously recognised in other comprehensive income could be presented as unusual or infrequently occurring items when such items are subsequently reclassified to profit or loss.

Presentation of operating profit

59. The IASB is currently discussing whether to require the presentation of new performance measures in the statement of financial performance. If the IASB were to introduce any performance measure, the IASB should first clarify the objective of presenting such performance measure. We also believe that the IASB should place priority on the presentation of a performance measure that represents 'sustainable income arising from operating activities', which is a useful starting point in assessing

the prospects of future cash flows. In this context, we assume that 'sustainable income arising from operating activities' represents profit before investing income/expenses, financing income/expenses, income tax and unusual or infrequently occurring items (that is, profit presented before these items).

60. We believe operating profit that represents 'sustainable income arising from operating activities' is more relevant for most entities in assessing the prospects for future cash flows, compared to EBIT that represents 'a performance measure that is independent of the entity's capital structure and income tax situation' or EBITDA that represents 'a measure of cash generation' (please refer to paragraphs 5 and 9(b) of the Agenda Paper 21A at the IASB's Board meeting in March 2017, respectively). We acknowledge that operating profit is the same as EBIT or EBITDA in the sense that the negative consequences of uniformity may arise by requiring all entities to present the performance measure. However, we think the IASB could address that issue by adopting the method described in paragraph 56 of this comment letter.

61. The IASB seems to have decided not to require the presentation of operating profit because past attempts proved unsuccessful. However, we acknowledge that constituents strongly support the usefulness of operating profit that excludes unusual or infrequently occurring income and expense items, which is consistent with the concept of 'sustainable income arising from operating activities'. In particular, there are strong needs from users as the starting point for financial statement analyses because it allows them, for example, to conduct the operating profit to sales ratio analysis, which in their view is one of the most important analyses conducted. These users also noted that performance measures such as EBIT are calculated using this operating profit as the starting point.

62. In our jurisdiction, constituents including preparers and users widely share that the presentation of operating profit, which aims to represent the 'sustainable income arising from operating activities' is useful. Under Japanese GAAP, there is a 'special income/expenses' category which corresponds to unusual or infrequently occurring items, and that is generally explained to include income and expenses that 'do not regularly occur and are of a large amount'. Our understanding is that operating profit, defined as profit before investing income/expenses, financing

income/expenses, tax income and special income/expenses (profit presented before these items), aim to present 'sustainable income arising from operating activities'.

63. In addition, in our jurisdiction, there are industry-specific disclosure rules for certain industries, such as financial institutions and construction. Under these industry-specific disclosure rules, items that are included in operating profit may differ from the general requirements and, in some cases (for example, banks and insurance companies), the presentation of operating profit is not required.

64. Based on the discussions above, although we agree that it may be difficult to define operating profit, we think that the IASB should continue to consider defining operating profit because operating profit is a more relevant performance measure compared to EBIT and/or EBITDA. In doing so, as described in paragraph 56 of this comment letter, we believe that the IASB could require entities to present operating profit in principle, but at the same time, permit an option not to present operating profit if the entity can explain why that would be more relevant (for example, in the case where the entity is a financial institution (including other entities providing financial services) or an investment entity (including other entities that conduct significant investing activities).

65. If the IASB were to define operating profit, we think that whether a specific income or expense item should be included in operating profit would depend on the nature of such income or expenses and on the entity's operating activities. For example, income from investments in other entities may be included in operating profit if those investments relate to the core activities of the investing entity but excluded from operating profit if those investments are not related to the core activities of the investing entity. Such determination should be discussed in individual standards, along with the recognition and measurement requirements.

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?

66. The constraints such as those in paragraph 5.34 in the DP should be imposed when an entity presents in its financial statements performance measures that are not specifically required in IFRS Standards. We note that, if new performance measures that are currently being discussed by the IASB are introduced in IFRS Standards, there will be more reference points for reconciliations, which would improve the feasibility of the proposed requirement in paragraph 5.34(b) of the DP.

Section 6: Disclosure of accounting policies

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.

Accounting policies to be disclosed

Information about the reporting entity

67. From the descriptions in paragraphs 7.17 and 7.24 of the DP, our understanding is that the IASB assumes that information about the reporting entity would be included in the disclosures under either Method A or Method B.

68. We think that information necessary to understand the reporting entity would be provided in the notes. This information would include the name of the parent and the ultimate parent of the group, a description of the nature of the entity's operations and its principal activities and the principles of consolidation. Information about the reporting entity is essential for users to understand the entity's financial statements and, accordingly, the general disclosure standard should include a requirement to disclose information about the reporting entity.

Whether to disclose information classified in each category proposed in the DP

69. To address the issues described in paragraph 6.6 of the DP and to disclose the entity's significant accounting policies, we believe that it is necessary to prescribe in the general disclosure standard that entities should select accounting policies that are to be disclosed based on the materiality of related items, transactions or events and that entities should provide information that is more relevant but should not provide information that is less relevant to the extent possible. In particular, this can be achieved in the following manner:

    (a) As described in paragraph 22 of this comment letter, we think that, consistent with the *Conceptual Framework*, the IASB should assume that users are familiar with IFRS Standards. Based on this presumption, we believe that copying the requirements in IFRS Standards in the significant accounting policy disclosures should be minimised to the extent possible. Rather, entities should describe the specific methods of applying IFRS Standards considering the requirements in IFRS Standards (only when they provide relevant information). Examples of specific methods of applying IFRS Standards considering the requirements in Standard include accounting policies developed by the entity itself in compliance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and information about the measurement basis of segment profit or loss and other information reported to the chief operating decision maker based on IFRS 8 *Operating Segments* (that is, information disclosed in accordance with paragraphs 23 to 27 of IFRS 8, which requires specific explanations including how segment profit or loss based on the management approach was calculated);

(b) Category 3 accounting policies are those related to items, transactions or events that are not material and, accordingly, such accounting policies generally should not be disclosed. If an entity nonetheless elects to disclose Category 3 accounting policies in its financial statements, the IASB should impose some constraints, for example, to require the entity to explain why it disclosed such accounting policies or to require the entity to clearly indicate that the accounting policy disclosed is a Category 3 accounting policy; and

(c) The IASB should establish disclosure objectives (including how the disclosed information is expected to be used) for accounting policy disclosures in order to assist entities in determining the contents of the disclosures.

Location of accounting policy disclosures

General disclosure standard or non-mandatory guidance?

70. The guidance about location of accounting policy disclosures should be included in the general disclosure standard. The general disclosure standard should include requirements that the IASB can require entities to follow, and the location of accounting policy disclosures is a good example.

Location of accounting policy disclosures

71. As described in paragraph 68 of this comment letter, information about the reporting entity is essential for users to understand the entity's financial statements and, accordingly, this information should be provided at the beginning of the notes.

72. As described in paragraph 69(a) of this comment letter, the entity's accounting policy disclosures should focus on information about the specific methods of applying IFRS Standards considering the requirements in IFRS Standards (relevant information only). Such disclosures often are strongly linked to individual notes and, accordingly, they should be disclosed in the same note as the related information.

73. Moreover, if an entity discloses Category 3 accounting policies in the financial statements, that entity should follow paragraph 69(b) of this comment letter.

Location of information about significant judgements and assumptions disclosures

74. We think that information about significant judgements and assumptions forms part of the specific methods of applying IFRS Standards considering the requirements in IFRS Standards. Accordingly, we think that it is appropriate to provide this information adjacent to disclosures about related accounting policies and thus agree with the IASB's proposal.

75. We think that if an entity did not disclose such information adjacent to disclosures about related accounting policies, it would be difficult for users to fully understand how the entity applied IFRS Standards. Accordingly, the general disclosure standard should require entities to disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies.

Section 7: Centralised disclosure objectives

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?

76. Prescribing specific disclosure objectives in individual Standards would be useful for entities because those objectives would enable entities to provide disclosures with a good understanding of why they are required. However, as described in paragraph 20(c) of this comment letter, we do not think it is appropriate to mandate the centralised disclosure objectives (as proposed) to entities in accounting standards.

Rather, we believe the centralised disclosure objectives as proposed should be included in the *Conceptual Framework* for the following reasons:

(a) Paragraph 7.10 of the DP states that 'centralised disclosure objectives could be used as an underlying basis (or framework) for developing and organising disclosure objectives and requirements in Standards', and (a) and (b) of that paragraph states that, as a consequence of developing centralised disclosure objectives, they would also assist the IASB in developing standards. These statements refer to the IASB's decision-making process.

(b) The examples of centralised disclosure objectives for risks and other uncertainties provided in paragraph 7.17 of the DP merely repeats the objective of the financial statements described in the *Conceptual Framework* and, accordingly, these objectives are too abstract to include in individual Standards and assist entities in determining the contents of the disclosures. If disclosure objectives in individual Standards are described in such an abstract manner, it would be difficult for an entity to determine the contents of the disclosures in the light of the disclosure objectives and, as a result, we do not think that would improve disclosures in practice.

77. As described in paragraph 17 of this comment letter, we believe that, in many jurisdictions, accounting standards are often incorporated into laws and regulations. The centralised disclosure objectives should explicitly acknowledge this point, and the disclosure objectives (including the reasons for prescribing disclosure requirements and how the disclosed information is expected to be used) in individual Standards should be prescribed specifically.

78. The inconsistencies in the wording of disclosure objectives and the lack of consideration for the relationships between the disclosure requirements in different Standards stated in paragraph 7.7 of the DP could prospectively be solved by developing the IASB's decision-making process described in paragraph 19 of this comment letter. For existing IFRS Standards, they can be addressed as a part of the Standards-level Review of Disclosures project that will be performed in the future.

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.

79. Our understanding is that Method A, which focuses on the different types of information disclosed, is consistent with the IASB's existing approach to standard-setting and we observe that stakeholders are familiar with this approach. We think the discussions regarding centralised disclosure objectives in the DP would have an impact on the structure of the notes and the organisation of IFRS Standards. However, we are not aware of problems with the existing structure of the notes and the existing organisation of IFRS Standards and thus we do not think there are needs to change the existing approach.

80. On the other hand, we are not confident whether we fully understand the background of Method B and the consequences of adopting Method B on paragraphs 112 to 116 of IAS 1, which need to be changed if the IASB adopts Method B. Moreover, it was not clear how to change IFRS Standards fundamentally under Method B, which focuses on information about the entity's activities, because existing IFRS Standards consist of those that relate to balances (for example, inventories and tangible assets) as well as those that relate to transactions (for example, business combinations).

Accordingly, we think the IASB's consideration of Method B is insufficient. If the IASB were to continue to explore Method B, we would like the IASB to provide further information about Method B.

81. Based on the discussions above, we are not in the position to express our view regarding whether Method A or Method B is appropriate at this time.

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?

82. We believe that the consistency between disclosure objectives and disclosure requirements is generally easier to understand if they are prescribed in the same accounting standard that prescribes recognition and measurement requirements. Accordingly, the IASB should maintain its existing approach to prescribe recognition, measurement and disclosure requirements in a single package in each standard. However, we acknowledge that in some cases, it may be easier to understand the requirements if disclosure objectives and requirements for several standards that prescribe recognition and measurement requirements are integrated in a single standard.

83. If it is necessary to disclose items that do not satisfy the recognition criteria, we note that disclosure requirements for such items need to be prescribed in the general disclosure standard or related individual standards.

Section 8: New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards

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).

84. We will provide our comments to this question in our comments to Question 15.

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.

Granularity of disclosure objectives

85. As described in paragraph 76 of this comment letter, we think that prescribing specific disclosure objectives in individual Standards would be useful for entities. However, regarding the disclosure objectives proposed by the NZASB staff, the overall disclosure objectives merely repeat the objective of financial statements described in the *Conceptual Framework*. Moreover, the specific disclosure subobjectives are still too abstract and, accordingly, we do not think entities would be able to provide disclosures that reflect the substance using these disclosure objectives as judgement criteria. (We think that the granularity of the specific disclosure subobjectives would correspond to Tier 1 disclosures, rather than Tier 2 disclosures.) It is important to develop disclosure objectives that are more granular than those proposed in paragraphs 8.7, 8.10, and after paragraph 8.29 of the DP.

The IASB's decision-making process

86. In order to solve the 'disclosure problem', the IASB needs to ensure consistency of disclosure requirements and to ensure stability of IFRS Standards, and to do so, as described in paragraph 19 of this comment letter, we believe that the IASB's decision-making process related to presentation and disclosure should be clarified in the *Conceptual Framework.* The IASB's decision-making process assists the IASB in determining when and what type of disclosure is needed. The IASB needs to clarify the relationship between the disclosure objective and related disclosure requirements by clarifying the reasons for prescribing disclosure requirements and how the disclosed information is expected to be used.

Two-tier structure of disclosure requirements

87. We are supportive of having a two-tier structure of disclosure requirements because a two-tier structure would clarify the priority of disclosure items and would make it easier for entities to decide whether disclosures are necessary, which would lead to improvements in disclosures.

88. However, we believe that disclosure objectives (which would include the concept of materiality) should dictate whether certain information should be disclosed. In particular, we think the two tiers should be structured as follows:

(a) Tier 1 disclosures: core items that are generally required to be disclosed. If the entity can justify not to disclose the item in the light of disclosure objective, that entity will not need to disclose the item. An entity can justify not to disclose an item when the entity concludes that, after considering the nature of its operating activities in the light of disclosure objective, the disclosure objective cannot be sufficiently satisfied through the disclosure of the item.

(b) Tier 2 disclosures: items that are generally not required to be disclosed but are considered whether they should be disclosed in the light of disclosure objective.