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International Accounting Standards Board
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London EC4M 6XH
United Kingdom

The Hague, 5 October 2017

Ref: B17.26

Subject: Eumedion's response to Discussion Paper 'Disclosure Initiative – Principles of Disclosure' DP/2017/1

Dear Members of the International Accounting Standards Board,

Eumedion appreciates the opportunity to respond to your Discussion Paper 'Disclosure Initiative – Principles of Disclosure' ('DP'). Eumedion represents the interests of 65 institutional investors, all of whom are committed to a long term investment horizon. Eumedion aims to promote good corporate governance and sustainability in the companies our participants invest in. We regard accounting standards as a critical part of a global financial infrastructure, especially since investors are dependent on the quality of accounting standards for allocating their own and entrusted capital and act as engaged providers of capital. Together our participants invest over € 4 trillion of capital in equity and corporate non-equity instruments. Our views therefore represent a perspective of users of financial statements.

Before answering the individual questions in the DP, our general comment is that the Board has identified in the DP numerous valuable insights that could lead to a significantly improved standards setting process and ultimately improved Standards. We urge the Board to be rather reluctant to broaden the scope of the project, if this would increase complexity and endanger the pace to completion of the project. We would also caution the Board to subsequently relocate or even rewrite substantially all of the existing disclosure requirements in the Standards as we are not convinced of the benefits for investors, as such initiative is likely to absorb excessive valuable resources.

Please find below our detailed response to the individual questions in the consultation.

If you would like to discuss our views in further detail, please do not hesitate to contact us.

Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 70 2040 304).

Yours sincerely,

Rients Abma

Executive Director

Eumedion

Zuid Hollandlaan 7

2596 AL THE HAGUE

THE NETHERLANDS

Answers to the questions of the DP

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 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

Response to question 1a: We agree. We consider 'Not enough relevant information' and 'Ineffective communication of the information provided' as the most challenging problems. There are quite a number of disclosure topics that are not yet addressed by IFRS. Most notably, investors need standards that help accommodate their information needs on new topics like sources of dilution, pro forma information, non-controlling interests, group structure, capital structure, bank covenants, and unencumbered assets. A discussion on the investor needs on these topics can be found in our response to the IASB agenda consultation in 2015[1]. There are also quite a number of improvements possible that would enhance the communication of existing information, for example by increasing granularity of line-items in the primary financial statements. The topic of 'Irrelevant information' mostly relates to the common practice of including summary descriptions of accounting policies that are not entity specific and to a small number of particular requirements that result the disclosure of information even if it is not very relevant.

Response to question 1b: We agree. A set of principles of disclosures can especially serve the standard setting process to facilitate that all relevant disclosures end up in the financial report. We would like to emphasise that a general disclosure standard should also help meet the specific needs of debt investors as they currently are somewhat overlooked by IFRS.

Question 2

Sections 2–7 discuss specific disclosure issues that have been identified by the Board and provide the Board's preliminary views on how to address these issues.

Are there any other disclosure issues that the Board has not identified in this Discussion Paper that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?

Eumedion response to 2: No, we are not aware of any other disclosure issues. We urge the board to be very cautious with expanding the scope of this project, as this may unduly affect the time it takes to complete the project.

[1] https://www.eumedion.nl/en/public/knowledgenetwork/consultations/2015-12-response-iasb-agenda.pdf

Question 3

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.

Response to question 3a, 3b: Yes, we agree with each of the principles mentioned in 2.6, because they are very recognisable and practical.
Response to question 3c: Yes, the principles should be part of such standard. They would serve as high level principles for all disclosures while still requiring judgment in application. If the board were to decide to create a general disclosure standard, we find it difficult to envisage that these principles would not be part of the standard.
Response to question 3d: Yes, such non-mandatory guidance for formatting may serve preparers by highlighting selected best practices.

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?

Response to question 4: Eumedion agrees with the suggested improvements. One very useful characteristic of the primary financial statements for investors seems to remain unrecognised: the individual line items of the primary financial statements add, or at least should add, up to net income to common, total assets, group equity and net change in cash. In practice, it is not always entirely clear how detailed information in the notes relates to the primary financial statements. For example, there may be great reconciliations available on tangible and intangible assets, but it is often not clear what depreciation, amortisation of internally generated intangibles, amortisation of acquisition related intangibles, impairments were included in cost of goods sold and other line items of the statement of financial performance. Another common problem is that certain line items are of such diverse nature that the summary amount included in the primary financial statements is not useful. Examples of such line items are a financial expense (income) that is a mixed bag of costs (incomes) relating to the capital structure and a variety of very different and diverse other cost. Investors generally would not be daunted at all by more detailed primary financial statements. Another example is the nature of dividend payments to non-controlling interest: the nature of these payments is so different from dividend payments to common shareholders that the cash flow statement should never allow aggregated presentation of the two in a single line item.

The current phrasing of the principles of disclosure may be interpreted that primary financial statements are more useful if they were to provide a summary overview, whereas in practise usefulness can be enhanced by elevating more break downs from the notes to the primary financial statements. We would also welcome a principle that safeguards linkage between amounts in the notes and the relevant amounts in the primary financial statements. Principles of disclosures should help mitigate the reporting of mixed bag line items in the primary financial statements.

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)?

Response to question 5: Eumedion supports the described principle. We agree that ‘including by reference’ can help reduce duplication of information and enhance the readability of the annual reporting package. The IASB should help safeguard that the information included by reference into the financial report should by no means result in a less stringent regime from an audit perspective. It should be crystal clear exactly what parts of the information included elsewhere in the annual reporting package benefited from the enhanced assurance. This transparency should be conditional for allowing including by reference. We prefer an approach where the Board identifies which disclosures are eligible for being included by reference in the financial report. Although it may be difficult to enforce the principle that cross referencing is allowed only ‘if it makes the annual report as a whole more understandable’, it is a clear guiding principle, which is better than no principle. On the definition of ‘cross referencing’, the Board may want to explain whether, and if so how, ‘cross referencing’ is intended to differ from ‘including by reference’.

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?

Response to question 6: Eumedion supports the proposed approach. Non-IFRS information can be very useful and should not be prohibited, but it should never cloud IFRS information. The proposed approach helps investors to distinguish it from IFRS information (category A & B), and therefore treat it with appropriate caution. Non-IFRS information should still be clearly defined and audited against the definition provided. Insofar the non-IFRS information represents an alternative for IFRS information, we suggest that IFRS requires that the IFRS information should be explained in at least as much detail as the presented alternative adopted by the reporting entity.

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?

Response to question 7: The key difference between IFRS information and non-IFRS information in the annual accounts is that IFRS information benefits from both the solid framework that the IASB has created over the years and the reasonable assurance from external auditors against the Standards. This allows investors to have greater trust in such information. Such trust should not be directed to information based on company-specific or any other accounting framework if it is presented in a way that clouds similar IFRS information. In the latter case we would consider such information as misleading and therefore it should be prohibited to present non-IFRS information in such way.

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.

Response to question 8: This topic seems to fall outside the scope of the principles of disclosure project, and much more within the scope of the Primary Financial Statements project. We are in support of a firm definition of EBIT. We consider this to be feasible and desirable. Investors should be able to relate EBIT to revenues of the entity. Therefore, EBIT should exclude income from associates as the entity does not control associates and the revenues of associates are also not consolidated. If associates were included in EBIT(DA), these margins would become less comparable amongst entities. There is a second mismatch: unlike EBIT, income from associates is a net income, i.e. after tax, after interest and after non-controlling interests. Generally, higher valuation multiples apply for valuing net income than for EBIT. If investors were to treat results from associates as EBIT they would, based on multiples, undervalue the reporting entity. There is great merit in identifying what elements in interest are related to the capital structure of the entity (cash, financial debt, pensions) versus those elements that are not. This would greatly enhance the linkage between the financial position and the performance statement. Defining EBITDA would a relatively small step after having defined EBIT. There is merit in defining EBITDA, as the use of EBITDA in the investment community is widespread, for many good reasons. We expect many companies to continue to report adjusted EBIT and EBITDA numbers, but if the IASB were to require reconciliations between adjusted and nonadjusted this would allow investors to use their own judgment on each individual adjustment. We urge the IASB to refrain from specifying different categories of adjustments like non-recurring, one-off, unusual, infrequent, restructuring, extraordinary, etc. We expect it rather difficult to define such categories. It is of much greater importance that any individual adjustment is well explained in the notes. Exploring what granularity and description requirements can be set for the individual adjustments may prove to be more effective in helping investors than prohibiting any particular type of adjustment.

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?

Response to question 9: We fully support the suggestions in paragraph 5.34 for reasons specified in our response to question 6 and 8. We wonder whether the definition of performance measure is sufficiently broad, as it may not include alternative measurements in the financial position and cash flow statement.

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.

Response to question 10: Eumedion has been calling for improvements to this section in financial reports since 2012.[2] We agree with the proposed changes. We like the proposed option to allow preparers to include the policy in the note it relates to. We find the suggestions in the discussion paper not overly prescriptive. We understand that it may pose challenges to forbid the inclusion of the irrelevant category 3 policies. Still, with the three categories identified, principles of disclosure should not allow relevant information to be cluttered with irrelevant information. Therefore, we urge the IASB to 'require' entities to distinguish relevant accounting policies (category 1 and 2) from those that are not relevant (category 3), instead of just a suggestion to 'consider' doing so.

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?

Response to question 11: We agree that the board should develop centralised disclosure objectives. Such objectives can help safeguard all relevant disclosure needs are properly and proportionally addressed when developing a specific standard. It may also prove helpful in judging whether some of the older standards need to be revisited from a disclosure perspective.

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

[2] https://www.eumedion.nl/en/public/knowledgenetwork/speerheadsletter/2013_spearheads_letter.pdf

Board. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

Response to question 12: We prefer the hybrid model. Disclosures that help understand individual line items will continue to remain paramount. However, we agree that there is also a valid need to understand activities. One example that comes to mind is hedging, where it would be helpful if the hedges can be attributed to those relating to financing of the capital structure, to investments and those relating to hedging revenues, and input costs.

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?

Response to question 13: No, we are not convinced that this is necessary. We foresee that even relocating disclosures only would absorb a huge amount of resources to accomplish, without actually significantly improving disclosures. We are worried that subsequently such disclosure standard would continuously be under review, which may not contribute to the perception of IFRS as a stable basis.

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).

Response to question 14: We are not convinced that at a standards level a distinction can be made between 'summary' and 'additional' disclosures. We fear that this approach may unduly raise the hurdle for providing 'additional' disclosures.

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.

Response to question 15: We are in favour of standards that mention clear disclosure objectives. This helps understand and justify the subsequent more detailed disclosure requirements in such standard. Clear disclosure objectives should also help implement an annual improvement if in practice the current requirements do not result in addressing the needs of investors. Unfortunately, disclosure objectives of for example IFRS 12 are not very effective as a catch-all to complement hard disclosure requirements in the standards.