International Auditing and Assurance Standards Board

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October 4th, 2017

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

Re: Comments on IASB's Discussion Paper, *Disclosure Initiative—Principles of Disclosure*

I am pleased to provide the attached comments on the International Accounting Standards Board (IASB)'s Discussion Paper, Disclosure Initiative—Principles of Disclosure (DP), published in March 2017. These comments have been developed by the International Auditing and Assurance Standards Board (IAASB)'s IASB Liaison Working Group (the Working Group), with a particular focus on auditability or verifiability.

Our Own Project on Disclosures

Recognizing the importance of disclosures in informing the decisions of users of audited financial statements, the IAASB published a Discussion Paper (DP), *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications* in January 2011 (see the IAASB's January 2012 *Feedback Statement* for a summary of responses to the DP), and commenced a project in September 2012 to determine whether changes to the ISAs with respect to disclosures were needed. Final changes to the ISAs for auditors to further consider the presentation, structure and content of financial statements were approved in March 2015 to:

(a) Focus the auditors' attention on disclosures throughout the audit process, thereby contributing to relevant and adequate disclosures for users of the financial statements.

(b) Enhance the requirements in various ISAs to drive changes in the auditor's approach and improve consistency in practice to more specifically address disclosures.

(c) Focus auditors on procedures relating to qualitative disclosures, given the evolving nature of accounting standards to require more qualitative information in financial statements.

(d) Clarify the auditor's work effort in relation to disclosures by providing additional guidance in the application material in the ISAs to assist auditors in better applying the ISA requirements, regardless of the applicable financial reporting framework, and draw specific attention to evolving types of disclosures and the auditor's work effort in relation to them.

Encouraging a holistic consideration of the depiction of items in the primary statements and notes

One important feature of the changes we made to our auditing standards recognized the importance of the interconnections between the monetary amount recognized or disclosed for a class of transactions or account balance, and the disclosures about that item, in the financial statements. We noted that it is only when the monetary amount and the "related disclosures" are taken together that they provide a "complete" depiction of the class of transactions or account balance.

In many cases, particularly where there are important risks, uncertainties or accounting policy choices that affect the recognition or measurement of the item, the related disclosures can be as important, and sometimes even more important, than the monetary amount. Our aim was to encourage auditors to consider the amounts and related disclosures for an item in a holistic manner throughout the audit. In doing so, we believed that auditors would be encouraged to consider the interconnectivity between such items in addressing disclosures in the audit of financial statements.

Continuing Co-Ordination of Developments in Financial Reporting Frameworks and Auditing Standards

In making the changes to our standards as a result of our disclosures project, the IAASB engaged closely with the IASB with a view to keeping our auditing standards conceptually aligned with the accounting standards.

In the responses to the consultations on disclosures, stakeholders consistently highlighted the need to focus on the relevance and entity-specific nature of the information provided by the entity in the financial statements.

Many stakeholders also encouraged us to continue to co-ordinate our work with developments in financial reporting standards, in particular with the IASB. We noted that further developments in financial reporting frameworks, particularly in relation to materiality and disclosures, could have further implications for our auditing standards, particularly those addressing materiality and audit evidence relating to disclosures.

The IAASB therefore welcomes the further progress made by the IASB in its disclosure initiative. The IAASB has already provided comments on certain specific aspects of the Discussion Paper and of proposed changes to IFRS 8 (see Appendix to the Attachment to this letter). While we do not repeat those comments in the main body of this letter, they remain part of our response to the DP.

The IAASB is also in the process of finalizing changes to its auditing standard addressing accounting estimates (which includes fair value estimates). The timing of the project was accelerated because of the impending implementation date of IFRS 9, *Financial Instruments* and similar developments in other financial reporting frameworks. One important focus of this project has been addressing disclosures relating to accounting estimates, given the integral and important nature of such disclosures in many cases. In doing so, we have been seeking to align our changes with the latest developments in the IASB's Conceptual Framework and other similar developments.

Yours sincerely,

Arnold Schilder

Prof. Arnold Schilder

IAASB Chairman

Attachment

Comments Developed by the IAASB's IASB Liaison Working Group on IASB Discussion Paper: Disclosure Initiative–Principles of Disclosure

General Comments

Clarification of Terms and Other Matters

Broadly, the Working Group supports the clarification of matters that are leading to inconsistent practice or confusion, as this will provide clearer criteria for preparers and auditors, and will support consistent application and auditability. The Working Group also recognizes that many of the decisions that have to be made about disclosures are subjective. Although criteria and guidance can reduce the subjectivity, there are inherent limits to the level of comparability and auditability that can be achieved.

Principles for More Effective Communication and Disclosure Objectives

The Working Group supports the IASB's preliminary view that it should develop a set of principles for more effective communication (Section 2 of the DP) and that it should develop a set of central disclosure objectives (Section 7 of the DP). The Working Group believes that doing so will assist preparers in making subjective materiality judgments about information to be disclosed and subjective judgments about how to communicate that information most effectively, and more consistently, thereby enhancing auditability. In developing these principles and objectives, the Working Group believes, however, that it will be important to ensure that the principles are sufficiently auditable by providing management with more detailed criteria or guidance in the most subjective areas.

The Working Group considers that disclosure objectives are of the utmost importance in promoting the consistency of qualitative information to be disclosed and essential to auditability (in particular in identifying where there may be misstatements of omission), in relation to particular elements of the financial statements. The Working Group also encourages the IASB to consider developing more detailed objectives, or more specific criteria or factors, which would help preparers apply the objectives more consistently in the most subjective areas and also facilitate auditability. We appreciate that this may need to be addressed at the level of individual standards.

The Working Group also notes the impact that technology is having, and will or may have in the future, in enabling users to access, visualize and search information in the financial statements, and to integrate information in the financial statements with information from other sources. We believe that the continuing relevance of the proposed communication principles will be enhanced if they are developed acknowledging that technology may affect the evolving use of financial and other information.

Complete Depiction of Financial Statement Items

(see also our related comments in the covering letter)

The Working Group encourages the IASB to give further consideration to highlighting the interconnectedness of information presented in the primary financial statements with related disclosures, in providing a complete depiction of financial statement items. The Working Group notes the current proposals for clarifying the important differences in the roles of the primary financial statements and the notes (Section 3) and strongly supports this.

However, the Working Group also notes that emphasizing these differences could imply that disclosures in the notes are somehow of secondary importance. Therefore, we welcome the proposed clarifications in paragraph 3.17. In addition, the Working Group encourages the IASB to emphasize the important linkages between items included in the primary financial statements and their related disclosures in the notes. For example, paragraph 3.17 could indicate that such interconnectedness is important to the complete depiction of items, and that providing appropriate linkages between them is consistent with the proposed communication principle in paragraph 2.8(d).

In this context, the Working Group also notes that the primary financial statements are intended to provide "an overview of the entity's assets, liabilities, equity, income and expenses" (3.17). The Working Group believes that the primary financial statements could provide information about the significance of the information in the notes to the overall depiction of particular items included in the financial statements, in addition to helping users navigate to such information. Making such linkages in the primary financial statements could enhance the overview that the financial statements provide. Formatting techniques could be used to achieve this enhanced overview and technology could further enable it.

Working Group Views on Specific Matters

The following sets out the Working Group's views in relation to specific aspects discussed in the DP. The Working Group has focused on those areas that impact auditability, which is the remit of this Working Group, and has not commented on all aspects discussed in the DP.

Section 2 – Principles of Effective Communication

In relation to the development of principles for effective communication (which we support, as described in our general comments above) (Q3(a)-(b)), the Working Group takes the view that such principles should be prescribed in a general disclosure standard, and not as non-mandatory guidance, as this will help support the auditability of the information (Q3(c)), and encourage a behavioral change among preparers of financial statements.

The Working Group further supports the provision of non-mandatory formatting guidance, as described in paragraphs 2.20 and 2.21, and as illustrated in the Table in 2.22 (Q3(d)). Such guidance would provide criteria for appropriate formatting and would improve the auditability of these aspects of the presentation of information in financial statements. However, the impact of technology in how financial statements are presented and disseminated should be borne in mind in developing such guidance.

Section 3 – Roles of the Primary Financial Statements and the Notes

In addition to our comments in the general section of this letter about a more complete depiction of information described in the general section above, the Working Group supports further clarity about the use of the terms 'present' and 'disclose.' However, while the proposals in paragraph 3.32 would clarify that these terms will not in future be used to indicate location (which we support), we note that it is not proposed to clarify what the "well-defined, and different meaning in the English language is."

The Working Group believes that many aspects of presentation reflect the communication principles and reflect 'how' financial information is included in the financial statements, not just in the primary financial statements but also in the notes. The Working Group encourages the Board to recognize explicitly that presentation is relevant to information included in the notes as well as to information included in the primary financial statements. We recognize that elements of presentation, such as prominence and understandability, are already implicitly addressed in the context of the notes. (Q4)

Attachment

Comments Developed by the IAASB's IASB Liaison Working Group on IASB Discussion Paper: Disclosure Initiative–Principles of Disclosure

Section 4 – Location of Information

The Working Group has already provided comments to the IASB on specific aspects of the proposals relating to the cross-referencing of information (paragraphs 4.1 to 4.24 – see Attachment) and those comments are not repeated in the body of this attachment. (Q5)

In relation to the inclusion of non-IFRS information within the financial statements, the Working Group notes that ISA 700 (Revised)[1] addresses circumstances where "supplementary information" is presented with the financial statements, in particular where such supplementary information is not required by the applicable financial reporting framework (i.e., Category C information, as described in paragraph 4.33), and the implications for the auditor's report.

Where such supplementary information is considered to be integral to the financial statements, either due to its nature or the way in which it is presented, it is required to be covered by the auditor's opinion. Where it is not an integral part of the financial statements, the supplementary information is not covered by the auditor's opinion and the auditor is required to ensure that the unaudited supplementary information is sufficiently and clearly distinguished from the audited financial statements.

Unaudited supplementary information which is part of the company's annual report would fall within the scope of ISA 720 (Revised).[2] Under ISA 720 (Revised), the auditor is required to consider whether there are inconsistencies between the unaudited supplementary information and the audited financial statements or the auditor's knowledge obtained in the audit. If so, the auditor is required to determine whether the unaudited supplementary information is materially misstated (a broader consideration of materiality) and if so to seek to have it corrected. Such misstatements, if not corrected, could undermine public confidence in the reliability of the financial statements.

In principle, the Working Group supports the IASB's proposals for addressing Category C information, including identifying whether the information has been audited, if the IASB concludes that such information may be included in the entity's financial statements (4.38). However, the Working Group notes that Category C information may include information that could influence the decisions of users (and could be material in a broader sense), even though that information is not material to the financial statements. Accordingly, the Working Group encourages the IASB to consider requiring a consideration of potential inconsistencies, by management, where Category C information that is not audited or reviewed is permitted to be included in the financial statements.

This could be achieved by adding another criterion to those in paragraphs 4.38(a)-(c), requiring management to consider if the Category C information appears to be inconsistent with the financial statements and to address the inconsistency. Aligning management and auditor responsibilities in this respect would enhance auditability. (Q6)In addition, the Working Group considers that the communication principle in paragraph 2.6(d) could be enhanced by adding that the reliability of the financial statements should not be undermined by apparent inconsistencies between the financial statements and the types of other information referred to in that principle. The Working Group encourages the IASB to give consideration to such an amendment to that principle. We also note, in this connection, that the IAASB's Discussion Paper: Supporting Credibility and Trust in Emerging Forms of External Reporting (EER): Ten Key Challenges for Assurance Engagements, proposed

1 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 53 and 54

2 ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

a framework for credibility and trust in EER reports that included consistency with wider information as a significant factor that supports such credibility and trust, and that our stakeholders who responded strongly agreed with this. (Q3(b))

Section 5 – Use of Performance Measures in the Financial Statements

It is not within the remit of the Working Group to comment on the appropriateness of what should, or should not, be disclosed in the financial statements or how such items should be described. However, the Working Group has considered the auditability of the proposed clarifications, definitions and requirements.

The Working Group believes that IASB's 'in-principle' proposals relating to:

(a) Clarifications about circumstances in which certain performance sub-totals are or are not permitted to be included in financial statements (paragraphs 5.21-5.22); and

(b) The IASB's "in-principle" proposed definitions and requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance (paragraphs 5.26-5.28)

would provide further clarity about such matters and enhance their auditability. (Q8)

The Working Group also supports, in general terms, the IASB's proposal to develop general purpose requirements for all performance measures included in the financial statements (paragraph 5.34) and considers that, in principle, the proposed criteria (paragraph 5.34) would not give rise to particular auditability issues. (Q9)

Section 6 – Disclosure of Accounting Policies

Although the auditing standards cannot prescribe what, and how, information is presented in the financial statements, as part of the changes in its Disclosure Project the IAASB recognized that encouraging greater auditor focus on whether information is presented in a manner that is consistent with the requirements of the applicable financial reporting framework could have a beneficial impact on the quality of the financial statements. Enhanced dialogue between auditors and preparers of financial statements, in light of that focus, could influence preparer behaviors with respect to presentation and disclosure in the financial statements.

One area of focus for the IAASB's changes was the disclosure and presentation of the accounting policies, and general changes were made to encourage greater auditor attention to the description of items, terminology used and the amount of detail provided. In addition, the required evaluation by auditors of the presentation of the accounting policies was enhanced to further address the relevance of the accounting policies to the entity and whether the accounting policies have been presented in an understandable manner.[3]

Accordingly, the Working Group supports the IASB, in principle, in providing further requirements in determining which accounting policies to disclose (paragraph 6.16) and believes that the criteria proposed would be auditable. Again, we make no comments on the merits of the criteria themselves which we understand the IASB will consider in light of other stakeholders views. (Q10(a))

Similarly, with respect to the proposals for locating accounting policy disclosures, we comment only on the auditability of the proposed criteria (paragraph 6.21). The Working Group has auditability concerns about the criterion in paragraph 6.21: "… unless the entity judges that another way of organizing them is more

[3] ISA 700 (Revised), paragraph 13(a)

appropriate because it improves the understandability of the financial statements". The Working Group believes that the criterion is subjective, and one that may be difficult to operationalize for both preparers and auditors. (Q10(b))

Section 7 – Centralized Disclosure Objectives

See comments in general section above. (Q12)

One of the significant issues highlighted by the IAASB's stakeholders that has not yet been fully addressed in the changes made in the IAASB's Disclosures project, is concerns expressed about the lack of guidance in relation to qualitative aspects of disclosures (for example how would materiality be applied where disclosures are non-quantitative).

In finalizing the changes to the ISAs in the Disclosures Project, the IAASB acknowledged that further consideration of these matters was needed in the accounting standards before the auditing standards could address such matters. The Working Group believes that the challenges in determining materiality for qualitative aspects of disclosures have not yet been addressed in the IASB's Disclosure Initiative to a sufficient extent to enable the IAASB to take significant further steps to enhance the auditing standards in this area. The Working Group encourages the IASB to further consider this issue as it develops its disclosure objectives.

Section 8 – New Zealand Accounting Standards Board Staff's Approach to Drafting Disclosure Requirements in IFRS Standards

The Working Group supports the efforts of the national standard setters in assisting the IASB in developing ways in which disclosure requirements can be drafted to promote consistency, but has no further specific comments about how this could be done.

Appendix to the Attachment

Comments Developed by the IAASB's IASB Liaison Working Group on Certain Aspects of the IASB Discussion Paper: Disclosure Initiative–Principles of Disclosure and of ED IFRS 8

Email sent on 10 August 2017

The IASB Questions that We Responded To and Areas on Which We Commented

Mary Tokar raised with the IASB Liaison Working Group (referred to as "WG", "we", "our", "us" in this note) the issue of consistency and inconsistency between information presented in financial statements and other information provided by an entity, noting that the issue had been touched on in two documents that the IASB had issued for consultation:

- A proposed amendment to IFRS 8 *Operating Segments* requiring entities to explain the difference in segments described within the annual reporting package (paragraph 22(d) of ED-IFRS 8); and
- Part of the Discussion Paper: *Disclosure Initiative-Principles of Disclosure* – the part that addresses the location of cross-referenced information (paragraphs 4.22 and 4.23 of DP-PoD).

We provided feedback on the material relating to these two specific proposals, including material in paragraphs 19A, 19B and 22(d) of ED-IFRS8 and in paragraphs 4.1 to 4.24 of the DP-PoD, and provided additional comments on the remaining proposals in ED IFRS 8, in particular the material in paragraph 20A.

We did not provide comments on the remainder of DP-PoD (including paragraphs 4.24 to 4.39) on the call and will do so separately.

Our Comments – Based on the WG's Discussions

Proposals relating to disclosures of segment differences in ED-IFRS 8

A. **Potential confusion may arise from the use of different but similar terms to describe annual reporting documents:**

(a) Our understanding of the background

ED-IFRS 8 proposes to define (in paragraph 19B) the term "*entity's annual reporting package*" and to require (in paragraph 22(d), and as explained in paragraph 19A) an entity to "*disclose an explanation of, and the reasons for, the difference in reportable segments identified in the financial statements compared with the segments identified in other parts of the entity's annual reporting package, if there is such a difference.*"

Paragraphs BC13 to BC 19 explain the IASB's conclusions in this respect. The IASB found that, when reportable segments are the same in the financial statements, management commentary and other types of financial presentations, the entity cross-validates these three sets of data and that users find segment information more credible (BC13). The IASB recognizes that an entity's annual reporting package is broader than its annual report and proposes that the comparison required in 22(d) should be with this broader reporting package because "*the annual report is not the only source of segment information users of financial statements use in evaluating an entity's activities*" (BC17).

In DP-PoD, the IASB proposes (paragraph 4.9) that a general disclosure standard should include a principle that information necessary to comply with IFRS standards can be provided outside the financial statements, subject to that information meeting certain criteria including that it is provided within the entity's annual report. The IASB recognizes (paragraph 4.10) that the term "*annual report*" is not defined in IFRS Standards and proposes to describe the entity's annual report as "*a single reporting package issued by that entity that includes the financial statements and has boundaries similar to those described in [ISA 720]*".

The IASB also notes (paragraph 4.23) that this is narrower than the Board's description of an entity's "*annual reporting package*" in ED-IFRS 8 and that, depending on feedback it receives on ED-IFRS 8, it may use the concept and term "*annual reporting package*", in place of the concept and term "*annual report*", in the proposed general principle in paragraph 4.9 (to be included in a general disclosure standard).

(b) Our feedback on the proposal in ED-IFRS 8

(i) We recognize that limiting comparison of the reportable segments to those identified elsewhere in the annual report (rather than, as proposed, to those identified elsewhere in the annual reporting package) would, to some extent, restrict (for the reasons in BC17) the benefits of the proposals in ED-IFRS 8 in addressing user and regulator concerns (as described in BC19). We understand that this is a matter that the IASB will ultimately determine taking into account the views of its stakeholders.

(ii) We consider that introducing the new term "*annual <u>r</u>eporting <u>package</u>*" in ED- IFRS 8 could introduce some potential for confusion by users given the similarity of terms (see underlining above). They may not understand the difference in scope of this term and of the term "*annual report*", particularly as the terms could both be used in financial statements without the benefit of readily accessible definitions, and the term "*annual report*" will be used in the auditor's report in connection with ISA 720. Furthermore, the auditor will be required under ISA 720 to seek to agree with management what comprises the annual report and it may be confusing for preparers if this was not consistent with the annual reporting package. In addition, ED-IFRS 8 does not itself propose to define or describe the "*annual report*" or to explain the difference between this and the "*annual reporting package*".

(iii) One possible way to address this issue would be to use a less similar term for the package (such as "*annual results package*") and to clarify in the last paragraph of the proposed description of that term the relationship between the package and the term "*annual report*". This could be done by describing how the package would be incremental to the annual report (rather than incremental to the financial statements) and by adding, to ED-IFRS 8, a description of the "*annual report*" based on what is proposed for that term in DP-PoD (see our additional comments on that description below). This would have the advantage of also aligning the description of an "*annual report*" with the definition in ISA 720.

(iv) There may be inconsistencies of interpretation between the term "*annual report*" as defined in ISA 720 (Revised) and the proposed description of the term in DP- PoD. This may also cause some confusion for users and could result in misunderstandings about the scope of the annual report for purposes of auditor reporting in relation to ISA 720. For example:

- As noted in DP-PoD (paragraphs 4.20 and 4.21), the ISA 720 clarifies that the "*annual report*" may be a document or a combination of documents. ISA 720 also clarifies that when the annual report comprises two or more documents they may not always be made available at the same time and it is specifically envisaged that some such documents may not be available until after the date of the auditor's report (see paragraph 6 of ISA 720).

- DP-PoD describes the "*annual report*" (paragraph 4.10) as "*a single reporting package issued by the entity that includes financial statements and has boundaries similar to those described in [ISA 720]*". It is not clear if the IASB intends to include within the concept of "boundaries" matters such as whether the package can comprise more than one document, and if so whether such documents may be made available at different times, or whether the term 'single reporting package' is intended to indicate that the annual report is a single document.

B. **Timing of availability of documents comprising the annual reporting package:**

The expression "published at approximately the same time as," in paragraph19B(a) of the ED, could cause difficulties, not just for the auditors but also for the preparers of the financial statements, if those documents are not prepared or made available until after the financial statements have been prepared or until after the auditor's report has been issued. In practice, we do not believe that it would be possible to make a comparison with, or to report on differences in, reportable segments identified in the financial statements and in any document not prepared by the time the audited accounts are approved by the entity.

In our view, consideration should therefore be given to replacing "at approximately at the same time as" with "not later than".

C. **Other auditability issues:**

(a) In principle, we believe that the required disclosures in the financial statements that describe the differences, if any, between the identified reportable segments in the audited financial statements and segments identified in other parts of the annual reporting package, would be auditable so long as all of the annual reporting package is available to the auditor in sufficient time before the auditor issues the auditor's report (see above comment in B).

(b) However, there are a number of circumstances where there may be challenges in both preparing the required disclosures and in auditing them:

- Financial and other information relating to segments may be buried in text and scattered throughout various other parts of the annual reporting package – this may pose challenges both for preparers, in making the necessary comparison to identify differences that should be disclosed, and for auditors in auditing them. Such other parts may include documents of considerable length and the required work effort could be substantial.
- The determination of which documents comprise the annual reporting package may be judgmental, for example it may depend on judgments about whether the purpose of various documents is consistent with the purpose set out in paragraph 19B(b), including with respect to documents of the types mentioned in the last paragraph of the definition

in 19B.

- The determination of what constitutes a "*segment identified in other parts of the entity's annual reporting package*" may also be judgmental. There could be many references to component parts of an entity in such other parts of the entity's annual reporting package and it is not clear how the determination of what constitutes a "segment identified …" should be made, for example whether the principles in the definitions of operating and reportable segments should be applied.

Some of these concerns could be addressed by providing guidance or examples that indicate appropriate considerations that should be made in arriving at these judgments.

(c) We note that the proposals in ED-IFRS 8 do not appear to address the situation where, although the segments identified within other parts of the annual reporting package are consistent with the reportable segments in the financial statements, the financial information for those segments is not prepared on the same basis as information in the financial statements.

(d) Under ISA 720, the auditor has no responsibility to review some of the documents that would or might be included in the definition of "*annual reporting package*" (e.g., preliminary announcements are specifically excluded from the scope of other information under ISA 720). In auditing management assertions about the new segment difference disclosures, the auditor would have to undertake audit procedures with respect to such other parts, in accordance with the requirements of ISAs other than ISA 720, whether or not such other parts were within the scope of ISA 720.

This may give rise to some confusion for users as to the extent of the auditor's responsibilities with respect to such documents when they do not fall within the scope of ISA 720 – for example it may not be understood by users that the auditor does not have any responsibility to read and consider whether there are any other material inconsistencies between those documents and the financial statements or their knowledge obtained in the course of the audit.

D. Materiality for misstatements of the new disclosures about inconsistent segments

Some members of the WG had concerns either about how the auditor should determine materiality with respect to misstatements of the new segment difference disclosures, or about the auditor reporting implications of such misstatements.

In the first case, the concern was that it may be difficult for both management and the auditor to determine when the impact of such misstatements would rise to the level of being material – to the level where they would impact the decisions of users based on the financial statements. This could be addressed through examples or additional guidance.

In the second case, the concern was that users and preparers might find it confusing if an auditor issued a qualified opinion on the financial statements because of the disclosures regarding segment differences, even though the financial statements were fairly presented in accordance with IFRSs in all other material respects. Ultimately, this is a matter of what constitutes a material misstatement – if there is a material misstatement that has not been corrected, then a qualification is required. As a result, addressing the first case concern could also address the second.

Appendix to the Attachment

Comments Developed by the IAASB's IASB Liaison Working Group on Certain Aspects of the IASB Discussion Paper: Disclosure Initiative–Principles of Disclosure and of ED IFRS 8

'Criteria' in the principle for locating information outside the financial statements in DP-PoD

E. Understandability criterion for the annual report in paragraph 4.9 (b) of DP-PoD

We believe that the criterion described in Paragraph 4.9 (b), that the location of such information outside the financial statements, "*makes the annual report as a whole more understandable*", is subjective, and one that may be difficult to operationalize for both preparers and auditors.

F. Cross-referencing criterion in paragraph 4.9 (c) of DP-PoD

Paragraph 4.9 (c) of the DP requires that the information outside the financial statements must be "clearly identified and incorporated in the financial statements by means of a cross- reference that is made in the financial statements." We support this criterion.

We believe that the understandability of what constitutes the audited financial statements would also be enhanced if this principle included a corresponding criterion that the information should, in its location outside the financial statements, be clearly identified as incorporated in the financial statements by means of a statement to that effect and a cross- reference to the financial statements.

Other proposals in ED-IFRS 8

G. Disclosing additional information about reportable segments

Paragraph 20A notes that: "*In addition to the disclosures required by paragraphs 21-27, an entity may disclose additional information about its reportable segments if that helps it to meet the core principle in paragraphs 1 and 20. This information may include information not reviewed by, or regularly provided to, the chief operating decision maker.*" (emphasis added)

If the disclosures required by paragraphs 21-27 are not sufficient to provide the information necessary to meet the core principle in paragraphs 1 and 20, we believe the entity would need to disclose additional information about its reportable segments that helps it meet the core principle. Paragraph 20A appears to suggest that even if the required information was not adequate to meet the principle, then additional information only "may" be required.

Auditability would be increased if this more clearly reflected the requirement to provide additional information. Otherwise, it may be difficult for the auditor to hold an entity to account for providing such additional information when required. Paragraph 20A could, for example be redrafted as follows:

> "*In addition to the disclosures required by paragraphs 21-27, an entity may need to disclose additional information about its reportable segments ~~if that helps it~~ in order to meet the core principle in paragraphs 1 and 20. This information may include information not reviewed by, or regularly provided to, the chief operating decision maker.*"