

October 2, 2017

Submitted electronically via www.ifrs.org

International Accounting Standards Board
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Subject: Disclosure Initiative – Principles of Disclosure Discussion Paper

Dear members of the International Accounting Standards Board (IASB),

The Canadian Securities Administrators (CSA) is an organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets. The CSA Chief Accountants Committee is comprised of the Chief Accountants from the provinces of Alberta, British Columbia, Ontario and Quebec. We are submitting this letter to you in response to the Discussion Paper DP/2017/1 on the Disclosure Initiative – Principles of Disclosure (the "Discussion Paper").

We welcome the IASB's efforts to improve communication in financial reporting and we appreciate the opportunity to comment. We have focused our comments on sections 4 and 5.

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).

(5a) 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?

We agree that cross-referencing can reduce duplication and fragmentation of information. However, we disagree with the Board's preliminary view for the following reasons:

- we received feedback from certain stakeholders in our jurisdictions that readers do not want to look outside the financial statements for information necessary to comply with IFRS;
- cross-referencing can increase the complexity of financial reporting for users having to look in separate documents for information required by IFRS, and it becomes less clear what information is part of the financial statements;
- the timing of when information outside the financial statements becomes available may be problematic; and

- potential implications related to determining what information has and has not been audited.

Furthermore, paragraph 4.9(b) states the Board’s preliminary view is to allow information required by IFRS to be provided outside of the financial statements if its location outside the financial statements makes the annual report “as a whole more understandable, the financial statements remain understandable and the information is faithfully represented.” We think the proposed tests of “more understandable” and “remain understandable” will be difficult to operationalise and enforce. We also note that the requirement that presenting information outside the financial statements must make the annual report as a whole more understandable may be outside of IASB’s mandate as it is tied to a characteristic of an annual report, rather than to a characteristic of the financial statements. As such, it is not clear whether it is appropriate for the criteria for cross-referencing to be linked to a characteristic of an annual report.

Paragraph 4.23 of the Discussion Paper states the Board might incorporate the broader term “annual reporting package”, rather than the “annual report”, into its principle of allowing cross-referencing. We think cross-referencing, if allowed, should be limited to the annual report. Allowing cross-referencing of information required to comply with IFRS to documents that may not be available at the same time as the financial statements or filed with the financial statements would limit the usefulness of cross-referencing and would not address the concerns listed in paragraph 4.8 of the Discussion Paper.

In Canada, the MD&A is filed separately from the financial statements. It is unclear what the implications of cross-referencing to a document that may not be available at the same time as the financial statements would be. We suggest the Board clarify whether two separate documents would qualify as a “single reporting package”, as discussed in paragraph 4.10 of the Discussion Paper.

If the Board ultimately decides that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS standards outside the financial statements, the Board should coordinate its efforts with the IAASB to discuss the audit implications of allowing cross-referencing.

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?

We agree with the concerns listed in paragraph 4.31 of the Discussion Paper and while we agree with the Board’s suggestion that entities should seek to minimise Category C information in the financial statements, we are concerned that the proposed approach outlined in the Board’s preliminary view may cause entities to increase the disclosure of

Category C information. We do not support increasing opportunities to include in the financial statements Category C information, as currently defined.

The relevance and prominence of information prepared and presented in the primary financial statements or in the notes in accordance with IFRS may be undermined if certain subsets of Category C information (as discussed below) are also presented in the financial statements. IFRS is a well-developed framework. The framework becomes less credible if it allows entities to include information in the financial statements that is inconsistent with the framework. Also, the presentation of Category C information would limit the comparability between entities and might encourage entities to present biased information. It is unclear how allowing Category C information would enhance clarity and make disclosures in the financial statements more effective. Furthermore, the presentation of Category C information within the financial statements also seems to be inconsistent with IASB's objective to reduce clutter in the financial statements. The inclusion of Category C information necessitates certain accompanying disclosures, which would add to the duplication and fragmentation of information identified in the Discussion Paper as a disclosure problem.

The scope of Category C information, as currently defined, is unclear and we note the following issues with the proposed definition:

1. It is not clear what kind of information would not meet Category B criteria but could be included in Category C. Amongst other things, the Board's preliminary view in paragraph 4.38(c) of the Discussion Paper states that for Category C information, a general disclosure standard should require the entity "...to explain why the information is useful and has been included in the financial statements. For information to be useful, it must comply with the qualitative characteristics of financial information (i.e. it must be relevant and faithfully represented)." The distinction between Categories B and C can be subject to interpretation, given the broad principle in IAS 1.112(c) that requires an entity to provide additional information if it is relevant to an understanding of the financial statements. The accompanying explanation seems to bump the information to Category B.
2. There appears to be subsets of information within Category C, including: (i) information that is inconsistent or in conflict with IFRS recognition and measurement principles, (ii) information that reflects a choice of accounting policy that is not elected by the entity, but which complies with IFRS, (iii) non-financial information, and (iv) information required to be disclosed under a relevant regulatory framework. It is not clear to us whether all subsets of Category C information should be subject to the same standard setting approach. For example, we believe that an entity should not be able to disclose information that is inconsistent or in conflict with IFRS recognition and measurement within the financial statements.
3. The proposed disclosure requirements for performance measures discussed in paragraph 5.34(c) of the Discussion Paper are similar to the requirements for Category C information discussed in paragraph 4.38(c). Therefore, it is unclear how Category C information differs from these performance measures.

The Discussion Paper uses the term “useful” in subparagraph 4.38(c). It is unclear how this term relates to “fair presentation” in IAS 1.15 and “relevant to an understanding of [the financial statements]” in IAS 1.112(c). Also, we note that paragraph 5.34(c)(i) of the Discussion Paper uses the phrase, “relevant information about financial position, performance and cash flows”. If retained, the Board should clarify whether these terms have the same meaning.

We also question whether it would be possible for an audit opinion to scope out certain portions of the financial statements, if certain types of Category C information were permitted in the financial statements. We recommend the Board coordinate with the IAASB to discuss the audit implications.

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 inconsistent with or in conflict with IFRS should not be permissible within the financial statements. As noted in our response to question 6 above, allowing information that is inconsistent or in conflict with IFRS undermines the credibility of IFRS as an appropriate framework for financial reporting.

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.*

The Board’s preliminary views are that it should develop definition 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

(8a) 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?

Presentation of EBIT and EBITDA

We agree with the Board's preliminary view that the presentation of EBITDA and/or EBIT in the statement of financial performance, if in accordance with paragraphs 85-85B of IAS 1, comply with IFRS Standards. While this proposal is largely a clarification of existing standards which permit the presentation of subtotals in the statement of financial performance if relevant to a user’s understanding, we believe it is important for IFRS to clearly define EBIT and EBITDA in the standard. As securities regulators, we have noted numerous variations in both the naming and the composition of these measures.

Unusual & Infrequently Occurring Items

We note that while users have expressed an interest in understanding which items form part of continuing operations, the concepts of unusual or infrequent can differ depending on the industry and fact pattern which can make it difficult to define “unusual or infrequently occurring items.” However, we agree that information about unusual or infrequently occurring items may help users forecast future cash flows and we note the widespread use of these and similar terms. Therefore we support the Board’s effort to provide parameters to delineate the population of such items. In doing so, the Board should make clear:

- that the presentation of items as unusual or infrequently occurring should not override the requirement to present items based on their nature or function;
- how these items differ from extraordinary items, which IAS 1 prohibits; and
- that additional disclosure is required if significant judgement was applied in determining whether an item was unusual or infrequently occurring, or additional context is necessary to explain why an item is considered unusual or infrequently occurring

In addition, the Board should also consider how such items could be presented in the statement of financial performance in a useful and neutral manner. Specifically, we are concerned that allowing more subjective adjustments to the primary financial statements would decrease the neutral depiction characteristic of the financial statements. In our experience, the adjustments will virtually always be such to show better results than the current IFRS results. If unusual and infrequently occurring items are embedded within the financial statements, more reliance will be placed on them by users of the financial statements. As noted above, it would be necessary to have disclosures and restrictions around these measures to mitigate these concerns.

(8b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?

We agree that the use of other terms should be prohibited.

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?

We agree with the statement in the Discussion Paper that entities require some flexibility in presenting performance measures provided that they are not misleading and are a faithful representation of an entity’s performance and we support a general disclosure standard that describes how performance measures can be presented in the financial statements.

However, paragraph 5.34(c)(i) of the Discussion Paper refers to a requirement for an explanation of how the performance measure provides relevant information. We believe that a general disclosure standard should explicitly prohibit an entity from presenting or

disclosing performance measures that are not relevant to an understanding of the financial statements, other than those required by a relevant regulatory framework. In this regard, paragraph 5.34 (g) refers to providing clarity as to whether a performance measure forms part of the financial statements and whether it has been audited. We believe that only financial measures that form part of the financial statements (i.e. because they are relevant to the understanding of the financial statements) should be included in the financial statements.

Furthermore, we note that the Board amended IAS 1 in 2014 to add requirements applicable to the presentation of additional sub-totals in accordance with paragraph 85 of IAS 1. We note that not all of the concepts in IAS 1 appear to have been articulated in paragraph 5.34 of the Discussion Paper. We think that the IAS 1 requirements are helpful for users and should apply to other performance measures presented in the financial statements. Specifically, paragraph 85A(a) of IAS 1 would prohibit the presentation of additional subtotals that are comprised of amounts which are not recognised and measured in accordance with IFRS standards in the statement of financial performance (e.g. performance measures that exclude the effects of changes in currency exchange rates, sometimes referred to as constant currency reporting). While this may result in entities presenting certain performance measures outside of the financial statements, we are of the view that financial measures recognised or measured on a different basis than permissible under IFRS should generally not be permitted in the financial statements. For measures outside of the financial statements, in Canada, we have securities law that information provided to the public not be misleading. Further, we have specific guidance with respect to non-GAAP financial measures which require reconciling to the closest GAAP figure as well as other disclosures. We have begun a project to consider amendments to our securities regulation in the area of disclosure of non-GAAP financial measures outside the financial statements.

Lastly, the Discussion Paper refers to items “disclosed adjacent to the primary financial statements”. Even if an attempt is made to clarify whether or not these other measures form part of the primary financial statements, there is the risk that more weight will be placed on the measures by virtue of their location. We think the focus should be on measures required or explicitly permitted by IFRS. Therefore, we recommend not permitting presentation of performance measures that are disclosed adjacent to or alongside the primary financial statements.

If you have any questions about this letter, please do not hesitate to contact us.

Yours truly,

The CSA Chief Accountants Committee

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