

Reporting Alert

CORPORATE REPORTING

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Recent Development from the IASB and the CSA — Tackling Disclosure Problems and Regulatory Burden

Introduction

The International Accounting Standards Board (IASB® or the Board) has identified **Better Communication in Financial Reporting** as a central theme of its current work plan. In March 2017, it issued the discussion paper **Disclosure Initiative—Principles of Disclosure** (Discussion Paper) to seek stakeholder input on various disclosure issues identified by the Board and on possible approaches to addressing these issues. The deadline to respond to the Discussion Paper was October 2, 2017.

Also in 2017, the Canadian Securities Administrators (CSA) launched a consultation on reducing regulatory burden in the public markets.¹ The CSA has now issued **CSA Staff Notice 51-353 Update on CSA Consultation Paper 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers** outlining the CSA's plan to pursue policy projects to examine specific prospectus requirements, revisit certain continuous disclosure requirements, and enhance electronic delivery of documents.

This *Reporting Alert* summarizes some of the main points emerging from the CSA Staff Notice and from the feedback received by the IASB. Although the two projects are separate, their subject matter clearly overlaps, and they raise several common themes.

¹ See www.osc.gov.on.ca/en/SecuritiesLaw_csa_20170405_51-404_considerations-for-reducing-regulatory-burden.htm.

Feedback on the IASB Discussion Paper—An Overview

This Discussion Paper uses the term “the disclosure problem” to summarize the three main concerns identified about information disclosed in general purpose financial statements:

Not enough relevant information	Irrelevant information	Ineffective communication
<ul style="list-style-type: none">• can lead to inappropriate investing or lending decisions	<ul style="list-style-type: none">• can obscure relevant information and reduce understandability of financial statements	<ul style="list-style-type: none">• can reduce understandability of financial statements

For the Board’s February 20, 2018 meeting, IASB staff prepared a summary of the comments received on the Discussion Paper.² The summary observes that many respondents highlighted the project’s importance and supported the Board in its efforts to find solutions to “the disclosure problem.” However, the summary also acknowledged that many respondents had concerns about the Discussion Paper’s overall direction and focus, often finding a lack of a clear vision of the project’s next steps and a focus on too many areas in too little depth. Many respondents expressed concerns about the interaction and possible overlap between the “principles of disclosure” project and other IASB projects.

Key Themes Emerging from Stakeholder Feedback

1. Defining “The Disclosure Problem”

Views differ on whether the problem—even before considering the impact of technology—is best addressed by:

- focusing on the content of disclosure requirements (e.g., by reducing the volume and content of perceived prescriptive language); or
- attempting to reduce “compliance-driven” behaviour (e.g., by promoting a better sense of materiality and more reliance on applying judgment).³

Of course, the two are not at all mutually exclusive. However, the more the problem is regarded as “behavioural” or “cultural,” the less likely is that it would be addressed by the specific suggestions contained in the Discussion Paper.

Further, it is often argued that financial statements should contain more or different information rather than less, to better reflect how an entity creates value—for example, the recognition and measurement of internally generated intangible assets and increased

² Agenda items AP11 to AP11L of the IASB’s February 2018 meeting. See www.ifrs.org/news-and-events/calendar/2018/february/international-accounting-standards-board.

³ The IASB has proposed to clarify and align the definition of ‘material’ and has issued guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. See www.ifrs.org/projects/work-plan/definition-of-material/#about.

disclosure about the impact of operations on the environment. The Discussion Paper does not address these concerns, or the broader question of what constitutes the most relevant financial information in a changing world.

2. Impact of Technology and Digital Reporting

Many respondents felt the Discussion Paper was developed based on an assumption that users would be consuming financial statements in a paper-based format and failed to adequately consider the potential effects of technology and digital reporting. Some respondents thought the disclosure problem might change in a digital reporting environment. For example, as enhanced electronic tagging allows greater “slicing and dicing” of information, current concerns about such matters as the formatting of financial information and the best location for particular items within the financial statements may come to seem outdated. Similarly, it might already be time to consider the implications of multimedia formats such as video and audio. In the future, the major “users” of financial information might increasingly be computers capable of quickly analyzing large amounts of information, and thereby any current concerns about “clutter” in corporate reporting will no longer be relevant.

3. Focus on Issues That Can Be Resolved Quickly

Some of the ideas arising from the Discussion Paper could by their nature be implemented more quickly than others. For example, it might require relatively little time to identify and eliminate or modify at least some of the disclosure requirements that tend to lead to excessive and/or “boilerplate” disclosure. This kind of exercise could potentially be carried out as a separate, narrowly focused project while other aspects of the Discussion Paper continue to be debated. Some respondents encouraged the IASB to focus at least initially on these kinds of actions.

4. Interaction with Regulators

A preparer’s assessment of its compliance with IFRS® Standards intertwines with that of its compliance with local regulations. For instance, jurisdictions may prescribe additional information to be included in the financial statements or might issue regulations to limit the choices that would otherwise be available under IFRS Standards. Some of the areas examined by the Discussion Paper (e.g., the degree to which IFRS information might be allowed to be reported outside the financial statements or non-IFRS information to be reported within them) might disturb the equilibrium that currently exists between standard-setters and regulators. Consequently, some respondents discouraged the IASB from pursuing these areas further.

5. Alternative Performance Measures

Perpetual debate exists over the use of “non-GAAP” and other alternative performance measures (APMs) and the extent to which they help or hinder users of financial information. The Discussion Paper set out a possibility of defining at least EBIT (earnings before interest and tax) and EBITDA (earnings before interest, tax, depreciation and amortisation) and of setting out requirements for how they are presented and of developing definitions of, and requirements for, the presentation of unusual or infrequently occurring items. However, even

if consensus were reached on these areas, it would not affect the ability of users to develop other entity-specific APMs and to report these outside the financial statements. As with the preceding issue, some respondents take the view that this area should be primarily the province of regulators rather than of the IASB.

The IASB's Next Steps

The March 2018 IASB update sets out the Board's tentative decisions on its next steps.⁴ The IASB will continue to consider in some form the feedback received on most of the topics in the Discussion Paper and decided that the staff should carry out further analysis on others. The IASB decided not to pursue the following topics any further:

- guidance on the use of formatting in the financial statements
- guidance on the location of accounting policy disclosures
- location of disclosure objectives and requirements in IFRS Standards.

The IASB decided the staff should perform additional analysis about whether and how to consider the effects of technology and digital reporting within the project for discussion at a future meeting.

Update on Reducing Regulatory Burden

CSA Policy Initiatives

CSA Staff Notice 51-353 indicates that the CSA intends to pursue the following specific initiatives:

- removing or modifying the criteria for reporting issuers to file a business acquisition report
- facilitating at-the-market offerings
- revisiting the primary business requirements to provide greater clarity to issuers preparing an IPO prospectus
- considering a potential alternative prospectus model
- reducing or streamlining certain continuous disclosure requirements
- enhancing electronic document distribution by issuers

It also indicates that the key areas of focus in reducing or streamlining continuous disclosure requirements will include:

- eliminating duplicate disclosure among the financial statements, management's discussion and analysis (MD&A), and other National Instruments 51-102 Continuous Disclosure Obligations forms
- consolidating two or more of the financial statements, MD&A and annual information form into one reporting document
- examining whether the volume of information in annual and interim filings can be reduced to prevent excessive disclosure from obscuring key information
- otherwise improving the quality and accessibility of disclosure.

⁴ See www.ifrs.org/news-and-events/updates/iasb-updates/march-2018.

However, for these steps in particular, the notice sets out an expectation that “this will be a staged project with a majority of the work requiring a longer timeframe.” For the other initiatives highlighted, the notice does not address the likely timetable.

The CSA observes that it may revisit or reconsider some of the other options set out in its consultation paper if it becomes aware of new developments.

CPA Canada’s Response

CPA Canada submitted a [*response*](#)⁵ to the CSA consultation paper, setting out CPA Canada’s belief that this is an opportune time to rethink corporate reporting, with the aim of focusing, modernizing and streamlining it. The CSA was encouraged to:

- re-evaluate existing reporting requirements beyond a reducing regulatory burden focus
- improve the quality of corporate reporting through education, issuing clarifying guidance and other initiatives
- explore how regulatory requirements should be adapted in response to technological advancements
- explore reduced/streamlined reporting requirements for smaller reporting issuers
- improve the quality of quarterly reporting as opposed to decreasing the frequency
- work with accounting standard-setters to limit instances of duplicative disclosures.

While the CSA reflected some of these points in its summary of comment letters received, the specific initiatives set out by the CSA appear likely to result in only incremental changes to the current reporting regime rather than in the broader rethinking advocated by CPA Canada. In particular, the CSA policy initiatives do not include in-depth consideration of the effects of technology and developments in digital reporting.

Moving Forward

CPA Canada encourages regulators, standard-setters and other stakeholders to work on finding ways to move forward with a co-ordinated sense of common purpose on enhancing corporate reporting for the twenty-first century.

The projects discussed in this *Reporting Alert* do not in any way affect the current application of IFRS Standards or regulatory requirements. However, an awareness of the projects may support and stimulate management and boards to discuss and reassess the effectiveness of their current disclosures while remaining compliant with current requirements.

⁵ www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/cpa-canada-responds-to-csa-consultation.

For example, preparers may wish to consider the following sections of the IASB's Discussion Paper:

- **Principles of effective communication** may provide a useful reference point in assessing the clarity of current disclosures and how effectively they are currently organized and formatted.
- **Use of performance measures in the financial statements** may be helpful in considering whether it is clear to readers why a particular performance measure provides relevant information.
- **Disclosure of accounting policies** may be useful in assessing whether current disclosures of accounting policies focus sufficiently on policies that are relevant to an understanding of the financial statements and whether they are suitably located within the statements.

Comments

Comments on this *Reporting Alert*, or suggestions for future *Reporting Alerts* should be sent to:

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