

2 October 2017

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

Dear Mr. Hoogervorst

**Discussion Paper DP/2017/1 *Disclosure Initiative – Principles of Disclosure***

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the Discussion Paper DP/2017/1 *Disclosure Initiative – Principles of Disclosure*.

We appreciate the IASB's initiative to develop new or clarify existing principles of disclosure in IFRS Standards to address the issues identified.

We are particularly concerned with the issue identified in paragraph 2.4(h) that omission of material information is an example of ineffective communication in financial statements. While we support the IASB's proposal to develop a set of principles to help entities communicate information more effectively in the financial statements, it is unclear how or whether the principles will be able to circumvent the more significant issue of omission of material information.

Our responses to the respective questions are detailed in the Appendix to this letter.

If you need further clarification, please contact the undersigned at +603 2273 3100 or by email at [beeleng@masb.org.my](mailto:beeleng@masb.org.my).

Thank you.

Yours sincerely,



**TAN BEE LENG**  
*Executive Director*

**Appendix****Section 1—Overview of the ‘disclosure problem’ and the objective of this project****Question 1**

Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes.

- (a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?
- (b) Do you agree that the development of disclosure principles in a general disclosure standard (ie either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

**Response**

- (a) *We agree with the description of the disclosure problem and its causes in paragraphs 1.5 – 1.8.*
- (b) *We agree that the development of disclosure principles in a general disclosure standard would help to address the problem.*

**Question 2**

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

**Are there any other disclosure issues that the IASB 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?**

**Response**

*We have no comment on any other disclosure issues that should be addressed as part of this Principles of Disclosure project.*

## Section 2—Principles of effective communication

### Question 3

The IASB'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 IASB 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 IASB 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 IASB 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

(a) *We agree that the IASB should develop principles of effective communication that entities should apply when preparing the financial statements.*

(b) *We agree with the principles listed in paragraph 2.6.*

*Nonetheless we note that the principles do not directly address the more significant issue of omitting or obscuring material information as described in paragraph 2.4(h). We believe the principles should also specifically address this issue, for example by requiring that material information should be located prominently and eliminating immaterial information.*

(c) *We believe that effective communication in financial statements is important. Given its importance, we believe including the principles of effective communication in a general disclosure standard would give them more*

*authority and would be more effective in encouraging effective communication compared to including them in a non-mandatory guidance which may be overlooked.*

- (d) *We believe that appropriate use of formatting will depend on a company's specific circumstances and an attempt to prescribe specific formats would run the risk of working against the objective of discouraging boilerplate disclosures, and reducing the value of disclosures. In this regard we are of the view that it is possible to achieve better disclosures through a combination of prescriptive principles and non-binding guidance on formatting.*

### **Section 3—Roles of the primary financial statements and the notes**

#### **Question 4**

The IASB'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 IASB'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 IASB's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?**

#### **Response**

*We agree with the IASB's preliminary views on the roles of the primary financial statements and notes. However, we believe that the role of primary financial*

*statements should not give the impression that it is more superior to the notes given that disclosures in the notes have explanatory value in its own right.*

*In addition, having a proper standardisation of the meaning of 'present' and 'disclose' would promote consistency in understanding and enhance comparability.*

## **Section 4—Location of information**

### **Question 5**

**The IASB'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 IASB'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**

*We agree with the IASB's preliminary view 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).*

### **Question 6**

**The IASB'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 IASB's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?**

## Response

*We agree with the IASB's preliminary view not to prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information' provided the information is not inconsistent with IFRS definitions and recognition criteria for assets, liabilities, income and expenses.*

*For example, listed corporations in Malaysia are required to disclose the breakdown of unappropriated profits or accumulated losses into realised and unrealised on group and company basis, as the case may be, in quarterly reports and annual audited financial statements.*

*We also agree that if the information is not useful, it should not be included which is in line with the objective of reducing the 'disclosure problem' as irrelevant information can obscure relevant information and reduce understandability of financial statements.*

## Question 7

**The IASB 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 IASB should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?**

## Response

*We are of the view that information that is inconsistent with IFRS Standards (i.e. amounts that do not meet IFRS definitions and recognition criteria for assets, liabilities, income and expenses) should be prohibited from being included in the financial statements for the following reasons:*

- *conferring information inconsistent with IFRS equal prominence as IFRS information may create confusion and uncertainty of the IFRS numbers.*
- *permitting such information undermines IFRS and may bring into question the relevance or quality of IFRS information that has gone through a robust due process.*
- *including information inconsistent with IFRS may bring into doubt that the application of IFRS is presumed to result in financial statements that achieve a fair presentation.*
- *including information that is contradictory to IFRS may pose challenges from audit perspective because audit opinion is provided based on compliance with IFRS; hence if information that is contradictory to IFRS is included in the IFRS financial statements, the audit opinion may need to be modified.*

- *to incorporate diverse types of information that is inconsistent with IFRS will not only lead to confusion amongst users, but reduce understandability and comparability.*

## Section 5—Use of performance measures in the financial statements

### Question 8

The IASB'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 IASB's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?**
- (b) **Should the IASB 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 IASB 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 IASB's Primary Financial Statements project.

### Response

- (a) *We agree with the IASB's preliminary view regarding the presentation of EBIT and EBITDA.*
- (b) *We support the IASB's preliminary view to develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items. With separate presentation or disclosure of unusual or infrequently occurring items, it would improve the transparency, understandability and usefulness of financial statements by shedding more light on the effects of these items on the entities' performance.*

*In addition, we are also of the view that the definitions to be developed for unusual or infrequently occurring items should not be prescriptive but principles-based. Preparers should be required and permitted to exercise judgement to determine what items are considered unusual or infrequent in nature, and to explain how this judgement has been exercised given the business and economic environments they are operating in.*

### Question 9

**The IASB'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 IASB's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?**

### Response

*We agree with the IASB's preliminary views.*

*In addition, we share the concerns described in paragraph 5.31. In this regard, other than EBIT or EBITA, we believe that performance measures should not be included in the primary financial statements.*

*Moreover, entities have other channels to communicate with investors and analysts and hence not all performance measures need to be included in IFRS financial statements.*

## Section 6—Disclosure of accounting policies

### Question 10

**The IASB'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 IASB’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 IASB’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

- (a) *We are of the view there is value in providing additional guidance (in the form of Category 1 and 2 disclosures) to help entities think through what accounting policies should be disclosed. We also believe that the existing requirements stated in paragraphs 119 and 121 of IAS 1 Presentation of Financial Statements should be enhanced further by adding an explanation about the objective of disclosing accounting policies.*

*However, we do not support the IASB’s preliminary view to allow an entity to disclose Category 3 accounting policies in the financial statements given they are unnecessary for primary users in understanding the financial statements.*

- (b) *We do not agree with the IASB’ preliminary view on developing guidance on the location of accounting policy disclosures as such guidance would be deemed too prescriptive and the focus should be on the type of disclosure rather than the location. In addition, paragraphs 113 and 114 of IAS 1 provide similar guidance and we welcome improvements on such guidance. Nevertheless, should the IASB decides to proceed with developing guidance on the location of accounting policy disclosures, the guidance should be non-mandatory.*

## Section 7—Centralised disclosure objectives

### Question 11

The IASB’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 IASB 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 IASB should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternative do you suggest, and why?**

**Response**

*We agree that the IASB should develop centralised disclosure objectives.*

**Question 12**

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

**Response**

*We reiterate that we believe the more important issue that the IASB should be addressing is to ensure material information is not omitted from the financial statements or immaterial information are not included so as not to obscure material information.*

*Whilst we agree that the IASB should develop centralised disclosure objectives, we do not have a preference of either method at this point in time as we need to understand how the IASB plans to further develop the methods to overcome the risk of omission of material information.*

*Nonetheless, based on the organisation of existing requirements in IFRSs, the practical approach is to apply Method A as Method B may be too subjective and requires significant judgement for preparers to decide what would be deemed to be relevant information. Consequently the IASB may ultimately need to prescribe*

*minimum disclosures to mitigate the risk of too little relevant information being disclosed in the financial statements.*

### **Question 13**

**Do you think that the IASB 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**

*Please see our response to Question 12.*

### **Section 8—New Zealand Accounting Standards Board staff’s approach to drafting disclosure requirements in IFRS Standards**

### **Question 14**

**This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards.**

- (a) Do you have any comments on the NZASB staff’s approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?**
- (b) Do you think that the development of such an approach would encourage more effective disclosures?**
- (c) Do you think the IASB 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 IASB 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 IASB 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**

*We have no comment on the NZASB staff’s approach. However, we think that IASB should consider the NZASB staff’s approach in its Standards-level Review of Disclosures project.*

**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 IASB 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**

*We received differing views from our stakeholders.*

*Some are of the view that the current drafting of the IFRS Standards contributes to the disclosure problem. Hence, periodical revisions and update of the disclosure requirements need to be put in place in order to improve the quality of the drafting of Standards and minimise problems.*

*Some are of the view the absence of centralised disclosure objectives contributes to the disclosure problem.*

*However, others do not face significant difficulties in complying with the existing IFRS disclosure requirements.*

*The above differing views indicate that the causes of the disclosure problems may be dependent on the specific circumstances and perspectives of the stakeholder.*