IASB Discussion Paper on Principles of Disclosure

The IASB has issued a discussion paper on the Principles of Disclosure and we would like to raise the following points for discussion:-

1. Do you agree with the IASB's preliminary view that a general disclosure standard:

    a. 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

    b. Should include requirements about how an entity provides such information as described in paragraphs 4.38 (a) – (c) [please refer Appendix A]

2. The IASB did not discuss whether any specific information (e.g. information that is inconsistent with IFRS standards) should be required to be identified as described in Appendix A or should be prohibited from being included in the financial statement. Do you think that the IASB should prohibit the inclusion of any specific types of additional information in the financial statements?

3. In your jurisdiction, are there regulatory requirements for an entity to disclose information in the financial statements that may be "non-IFRS" information? If so, please provide an example(s) of such disclosures. In your jurisdiction, is there a requirement for entities to disclose additional information in the financial statements

Preliminary views

We agree with the IASB's preliminary view that a general disclosure standard should allow an entity to include non-IFRS information in its financial statements if such an inclusion is necessary to enhance users' understandability of the information.

The financial reporting for Islamic transactions often requires disclosure of additional information in order for users to comprehend the overall transaction and its accounting treatment, for instance, information about the nature of each underlying Shariah contract used by an entity. Examples of such disclosures are: financing amount by contract types (Ijaraha, Murabahah, etc) and by purpose (vehicle financing, property financing, etc).

Paragraph 17 of IAS 1 states: "In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity: (a) … (b) … (c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance."

We propose that the disclosure standard should carry forward the principles in IAS 1 as stated above.

We do not believe it is necessarily helpful to disclose the additional information as outlined in Appendix A.

In Malaysia, Islamic financial institutions (IFIs) are required to observe guidelines issued by Bank Negara Malaysia (BNM) in the preparation of their financial statements. The guideline also clearly states that compliance with MFRS (word-for-word IFRS) is necessary.

Appendix A

Paragraphs 4.38 (a) – (c) of the Discussion Paper are reproduced below:

4.38 Nevertheless the Board observes that an entity might identify information in the financial statements as non-IFRS information, or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards (ie that the entity has identified as Category C). The Board also observes that such a distinction could be helpful for users of financial statements if an entity does include Category C information. The Board's preliminary view is that, if an entity identifies information in this way, a general disclosure standard should require the entity:

a) to identify clearly such information as not being prepared in accordance with IFRS Standards and, if applicable, as unaudited[footnote 39];

b) to provide a list of such information, together with the statement of compliance with IFRS Standards; and

c) 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 (ie it must be relevant and faithfully represented).

The Board suggests that additional information provided in accordance with the requirements of IAS 1 (ie Category B information) should not be identified by an entity in this way.

Footnote 39: IFRS Standards do not require any information to be audited in order for financial statements to state compliance with IFRS Standards. Therefore, this Discussion Paper does not discuss whether or not this information should be audited.