Investors have told the International Accounting Standards Board (Board or IASB) that because financial statements according to International Financial Reporting Standards (IFRS) are often poorly presented, it can be difficult and time-consuming for them to identify useful information. As a means of making communication of information in financial statements more effective for the primary group of users, the Board’s ‘Better Communication in Financial Reporting’ initiative was launched some years ago and highlights the importance and common themes of a number of projects.

The Board – via interviewing senior managers of corporates and stakeholders of financial reporting – identified the following key principles of effective communication for all this holistic initiative. These principles already provide a useful starting point for companies that aim to improve the impact of their financial reporting.
PRINCIPLES OF EFFECTIVE COMMUNICATION SUGGESTED IN THE DISCUSSION PAPER

- **Entity-specific**
  Tailoring information to a company’s own circumstances.

- **Simple and direct**
  Using simple descriptions and sentence structures without omitting useful information.

- **Better organised**
  Ranking pieces of information to help users of financial statements understand their importance.

- **Better linked**
  Linking information to help users of financial statements understand the relationships between pieces of information.

- **Better formatted**
  Selecting a suitable format for the type of information companies provide.

- **Free of duplication**
  Avoiding unnecessary duplication that obscures communication.

- **Enhanced comparability**
  Disclosing information in a way that enhances comparability among companies and across reporting periods without compromising its usefulness.

(Source: https://www.ifrs.org/-/media/project/disclosure-initative/better-communication-making-disclosures-more-meaningful.pdf)

These projects underlying the initiative are designed to help make financial information more relevant and improve the way financial information is communicated to users. “Better Communication in Financial Reporting” has been a theme underlying much of the Board’s work for the last and probably also next few years. The initiative identified a number of projects that will support better communication in financial reporting. Making information in financial statements more relevant and less cluttered is one of the Board’s key focus areas.

**BETTER COMMUNICATION IN FINANCIAL REPORTING**

(Source: https://www.ifrs.org/projects/better-communication/)

For the remainder of the article, we will focus solely on the Disclosure Initiative because of its already well-developed state. The Disclosure Initiative explores how disclosures in IFRS financial statements (excluding primary financial statements) can be improved.
CURRENT STATUS OF THE DISCLOSURE INITIATIVE

The current status of the projects that form part of the Disclosure Initiative is as follows:

<table>
<thead>
<tr>
<th>Completed</th>
<th>Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amendments to IAS 1</strong>&lt;br&gt;Presentation of Financial Statements</td>
<td><strong>Materiality Judgements on Accounting Policies</strong></td>
</tr>
<tr>
<td>Encouraging management to apply professional judgement in determining what information to disclose in their financial statements. Effective 1 January 2016</td>
<td>Developing guidance and examples to help entities apply materiality judgements to accounting policy disclosure. Exposure draft issued August 2019</td>
</tr>
<tr>
<td><strong>Amendments to IAS 7</strong>&lt;br&gt;Statement of Cash Flows</td>
<td><strong>Standards-level Review of Disclosures</strong></td>
</tr>
<tr>
<td>Requiring new disclosures that help users evaluate changes in liabilities arising from financing activities. Effective 1 January 2017</td>
<td>Identifying targeted improvements to disclosure requirements in existing IFRSs and developing guidance for the IASB to use when drafting disclosure requirements in new or revised IFRSs. In progress</td>
</tr>
<tr>
<td><strong>IFRS Practice Statement 2</strong>&lt;br&gt;Making Materiality Judgements</td>
<td><strong>Amendments to IAS 1 and IAS 8</strong>&lt;br&gt;Definition of Material</td>
</tr>
<tr>
<td>Facilitating management’s judgements on applying the materiality concept to the financial statements. It builds on the Amendments to IAS 1. Revised practice statement effective since issue in September 2017</td>
<td>Refining the definition of materiality and clarifying its characteristics. Effective 1 January 2020</td>
</tr>
<tr>
<td><strong>Principles of Disclosure (PoD)</strong></td>
<td><strong>Identifying disclosure issues and developing a set of principles for disclosure in IFRS to address them. Project summary published March 2019</strong></td>
</tr>
<tr>
<td>Identifying disclosure issues and developing a set of principles for disclosure in IFRS to address them. Project summary published March 2019</td>
<td></td>
</tr>
</tbody>
</table>

(Source: https://home.kpmg/content/dam/kpmg/xx/pdf/2019/08/disclosure-visual-guide.pdf)

As of today, five projects were completed and two projects are still ongoing. We take a closer look to the results of some of the completed projects in the following section.

COMPLETED PROJECTS

- **IAS 1 (effective since 1 January 2016)**
  
  Already by the end of 2014, the Board issued its amendments to IAS 1 Presentation of Financial Statements as the first completed part of its Disclosure Initiative. The amendments clarified some requirements relating to materiality, order of the notes, subtotals, accounting policies and disaggregation. Some of the IFRS companies used these amendments as the starting point to restructure their financial statements to improve the readability.
• **IAS 7 (effective 1 January 2017)**
  Early 2016, the Board issued its amendments to IAS 7 Statement of Cash Flows which required a disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These disclosures provide useful information to the investors about the entity’s financing activities during the year.

• **IAS 1 and 8 (effective 1 January 2020)**
  In October 2018, the Board issued the amendments to IAS 1 and IAS 8. The amendments clarify the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. With these amendments, the Board encourages companies to apply materiality judgements.

• **Principles of Disclosure**
  In March 2017, the Board published a Discussion Paper to obtain feedback on possible approaches to address the disclosure problem. After reviewing the evidence gathered, the Board decided that improving the way how disclosure requirements are developed and drafted in IFRS Standards is the most effective way it can help to solve the disclosure problem. Consequently, the Board decided to prioritize its targeted Standards-level Review of Disclosures project (see ongoing projects below). The Board also decided to address research findings about:
  – accounting policy disclosures (see ongoing projects below);
  – the implications of technology on financial reporting as part of the IFRS Foundation’s broader work in this area; and
  – the use of performance measures in financial statements in its Primary Financial Statements project.
  The Board decided not to pursue the remaining topics in the Discussion Paper at this time. The Project Summary published in March 2019 completes this research project.

**ONGOING PROJECTS**

This section includes a short discussion of the ongoing projects of the IASB.

• **Materiality judgments on accounting policies**
  In August 2019, the Board published a draft of proposed amendments. The proposals require IFRS companies to disclose their material accounting policies rather than their significant accounting policies to clarify the threshold for disclosing information. At the same time, the Board is also proposing to make use of the ‘four-step materiality process’ to accounting policy disclosures. With the proposed amendments, the Board is striving to end the ‘checklist’ mentality by encouraging companies to use greater judgement in disclosing accounting policies.

• **Standards-level Review of Disclosures**
  In March 2018, the Board added a project to perform a targeted Standards-level Review of Disclosure requirements. In this project, the Board is mainly developing guidance for itself to use when developing and drafting disclosure objectives and requirements in future.
OUR RECOMMENDATIONS FOR YOU

The completed projects of the Disclosure Initiative provide IFRS preparers with tools to make their financial statements more useful for the users. One important point is to declutter the financial statements from unspecific boilerplate language. This reduces the volume of the financial statements which in turn means that more focus is given to relevant information. We suggest that in your role as board member you should challenge the finance team to understand how these opportunities were embraced in order to make the financial statements more relevant.

For the ongoing projects of the Disclosure Initiative it seems that the proposals with regard to accounting policy disclosures could be helpful for IFRS preparers in deciding which accounting policies to disclose in their financial statements. So we recommend that your company already considers which of the information presented in the accounting policies section provides solely generic language and should be potentially eliminated in the future. The aim is to have entity-specific information to the most extent possible which at the end provides the readers the relevant information for decision making.

MARTIN STEVKA
Director, Co-Head Accounting Advisory Services for Corporates
KPMG Switzerland