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Reference: Disclosure Initiative—Principles of Disclosure

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the Disclosure Initiative - Principles of Disclosure.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We urge that the Board members and staff give consideration to each response in this comment letter. We have some concerns about the path that the Board is taking, considering its role, as a standard-setter based on principles. We also propose a revision of FASB and IASB agreement, ensuring its extension towards an one single international standard.

The CPC members and observers have some divergences in their views on this initiative, and therefore, another letter in addition to this one will be sent to the Board with the views of the other parties.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Silvio Takahashi
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

QUESTIONS ON THE DISCLOSURE INITIATIVE—PRINCIPLES OF DISCLOSURE

The Board invites comments on all matters in this Discussion Paper and, in particular, on the questions for respondents set out at the end of each CVMtion. Comments are most helpful if they:
(a) respond to the questions as they are set out in this Discussion Paper;
(b) indicate the specific paragraphs or group of paragraphs to which they relate;
(c) contain a clear rationale; and
(d) describe any alternative that the Board should consider, if applicable.
Respondents need not comment on all of the questions and are encouraged to comment on any additional matters. The Board will consider all comments received in writing by 2 October 2017 (180 days).

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?

Answer to question:

We agree that the main problems of disclosure occur in a mistaken application of the qualitative characteristics of the accounting information and the relation between cost and benefit, as presented in the Conceptual Framework. On our jurisdiction we are focus, which is integrally related to the concepts of relevance and materiality, in the question of the excess of disclosures in financial statements. We saw a greatly increase in the number of pages disclosed in the financial statements (there was a volume of information that caused shifting focus to the relevant information) after compliance to IFRS. Regarding this matter, we emphasize that the mention in IFRS-GAAP of disclosure requirements in particular transactions should always be interpreted in light of the relevance of the information to be disclosed, even if the terms "minimum disclosure", "at the minimum" and similar are expressed.

We agree, in such a way, with the development of a consistent and particular standard on the issues of disclosure and presentation of financial information. We added that, in our opinion, such a statement should be focused and concise. This standard, therefore, should be made to preparers of financial statements.

Question 2

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

Are there any other disclosure issues that the Board 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?

Answer to question:

We consider the following issues that we think the Board should give prominence when carrying forward the project:

1) Most of the problems faced nowadays related to disclosure are linked to the fact of absence of disclosure principles in IFRS. In our understanding, those principles should be

developed in a general disclosure framework to be the foundation of the disclosure requirements in specific standards. We recognize that the absence of a disclosure framework might cause sometimes perceived inconsistencies in disclosure requirements of specific standards;

2) We also urge the Board to highlight the importance of using the relevance criterion when deciding what information to disclose. The specific (minimum) disclosure requirements established by a standard shall only be applied if the economic event to which the disclosure relates is relevant to the reporting entity, considering the amount involved or the nature of the event itself. The Board should also draw special attention to the fact that if the event is not considered to be relevant at all the checklist procedure shall not be applied.

Question 3

The Board'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 Board 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 Board 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 Board 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.

Answer to question:

We agree that there should be a specific regulation for the preparers of the financial statements considering the principles of disclosure to meet relevant and reliable information in the CVMonday financial statements. Brazil has also promulgated specific guidelines for the financial statements as of 2016, considering a summary of guidelines for presenting information in the CVMonday statements.

Therefore, we agree with the principles proposed, with caution to :

> *(e) not duplicated unnecessarily in different parts of the financial statements or the annual report;*

We understand the objectives of the Board in this paragraph and we have the same view. For example, in our jurisdiction, we understand that the explanatory notes on the basis of preparation of the financial statements and the specific accounting policies of the entity should not repeate the texts of the normative acts, but only summarize the main aspects relevant and applicable to the entity. However, we are apprehensive about which is the annual report? and how to give CVMurity about the compliance to such information.

In regard to the information presented in the following paragraphs of this CVMtion; We understand that it is not necessary a mandatory disclosure about such items. We consider relevant the case and the information presented in the discussion paper and we believe that such materials should be presented in an educational material, or illustrative examples, to the extent that they guide the orientation of more effective forms of presentation.

Question 4

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

Answer to question:

We agree with the information presented in this CVMtion and with the Board's views.

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).

(a) 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?

(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)?

Answer to question:

We do not agree with this inclusion. As we presented in our letter to ED 2017/02 Proposed amendments to IFRS 8 and IAS 34, we believe that this information has generated a greater level of complexity in the accounting information system without bringing substantial benefits to users of financial information.

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?

Answer to question:

We do not agree with this view. We understand that the information that is provided in the primary and CVMondary financial statements should be consistent with the accounting policy presented in a specific note. Even if there is a clearly identified disclosure, presented with a caveat in the note of compliance to the generally accepted accounting policies and with explanation of the reasons for usefulness of the information. We understand that the financial statements are an important contract and attend to the entity's accountability to its primary users; therefore, in the existence of such information they should be presented outside the annual, or interim, financial statements.

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?

Answer to question:

We have mixed views about prohibition, or the inclusion of the permition. We believe that mention of the existence of such information, and the possibility of disclosure of this information in the financial statements, could misinterpret the applicability and accountability of this particular statement.

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.

● 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 Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(b) Should the Board 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 Board 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 Board's Primary Financial Statements project.

Answer to question:

a) We agree with the Board´s proposal to clarify that the so-called EBITDA and EBIT subtotals in the statement of financial performance comply with IFRS Standards provided they are presented in accordance with paragraphs 85-85B of IAS 1. Moreover, we urge the Board to also clarify that the aggregation or disaggregation of line items should be made using the totals of line items classified and measured in accordance with IFRS and as presented in the statement of financial performance. For instance, when calculating EBITDA the total value of depreciation, amortization and interest (using the nature of expense method) should be subtracted by total for calculating the performance measure. Is the performance measure is calculated is this way (following aggregation or disaggregation of line items in accordance with IFRS) the reconciliation with the most direct IFRS measure is automatically provided.

In relation to presentation of non-GAAP performance measures, the CVMurities Commission of Brazil has issued an accounting standard to regulate the presentation of performance measures in the financial statements of listed companies. We think it will be helpful for the Board to look at it when developing requirements in a general disclosure standard.

Besides, we do not agree with the presentation of performance measures in financial statements that are clearly inconsistent with IFRS Standards, such as performance measures that are classified in Category C information, as defined in paragraph 4.3(c) of CVMtion 4.

We also agree with the Board developing definitions of, and requirements for, the presentation of unusual or infrequently occurring items.

b) We are of the view that more important than prohibiting the use of other terms to describe unusual or infrequent items the Board should focus on a requirement for entities to highlight and explain why those items have been classified as unusual or infrequent. We recognize the importance of presentation of unusual and infrequent items since the values are correctly classified and consistently presented.

c) We think that the definitions of those terms should not, in any circumstances, be circumscribed to any specific amount or time frame. We understand instead that describing an item as unusual or infrequent depend on the particular circumstances of the entity and should be clearly identified with the operational policies of each entity (i.e. if an entity renovates each 3 years, as a policy, the entity´s cars fleet, such transaction cannot be understood as unusual or infrequent).

Moreover, if the Board does not propose to define the terms unusual or infrequent we suggest that a requirement be developed in a general disclosure standard to clarify that entities should include in its accounting policy the definition of unusual or infrequent items and such definition should be consistent across periods.

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?

Answer to question:

We agree with the Board´s preliminary view provided that the performance measure is not inconsistent with IFRS standards. We believe that all information that is included in financial statements must be consistent with IFRS standards. Entities are required to make an explicit and unreserved statement of such compliance in the notes (paragraph 16 of IAS 1), so presenting information in financial statements that are inconsistent with IFRS will clearly conflict with this requirement. Moreover, presenting information that are inconsistent with IFRS will disrupt the meaning of financial statements as a complete set of information according to such standard, giving room to whatever information entities desire to present or disclose, sometimes with no reasonable basis.

Moreover, we believe that if information (i.e. performance measure) is presented in, or disclosed adjacent with, the primary financial statements it forms part of it, demanding as a result the audit of such information.

Besides, if a performance measure is presented in the primary financial statements the presentation of that information shall be consistent with the line items of presented IFRS information requiring no additional reconciliation with the most direct IFRS measure because the performance measure has been derived directly from IFRS line items. As a result, we ask the Board to reconsider the provision that foresees the possibility of non-reconciliation with the most direct IFRS measure in item 5.34(c)(iii), as we understand that if the information is not directly reconciled it shall not be presented.

Question 10

The Board'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 Board'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 Board'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.

Answer to question:

a) We agree with the Board´s preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as stated in paragraph 6.16.

b) We agree with the Board´s preliminary view on developing guidance on the location of accounting policies disclosures. However, we ask the Board to consider further analysis regarding the benefits of disclosing the accounting policy in the same note as the information to which it relates, together with judgements and assumptions used to apply the accounting policy, as we think users would benefit from this way of presenting the accounting policies. We also ask the Board, in relation to the alternatives described in paragraph 6.22, to make it clear that the alternatives described in the related paragraph are not a prescriptive requirement, meaning that entities shall apply judgment to determine how to communicate information to users.

Moreover, we also ask the Board to consider developing conceptual guidance on the location of accounting policy in a mandatory guidance, i.e. general disclosure standard, and including examples in a non-mandatory guidance.

Question 11

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

Answer to question:

Yes, we do agree. We think that developing centralised disclosure objectives could significantly improve the application of materiality by preparers.

We think that developing such objectives may also improve the overall understanding of IFRS standards in the market, since the IASB will develop the objectives within their due process, thus involving all stakeholders in the discussion and assessing the market's overall views regarding the purpose of each standard, and therefore of each disclosure requirement.

Question 12

The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralized 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 CVMtion.

Methods A and B are in the early stages of development and have not been discussed in detail by the Board. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

Answer to question:

We support Method B because it is user-driven and hence we think it is more likely to improve communication in financial statements and facilitate the application of materiality by preparers. We think it will be clearer for preparers that financial statements are directed to users of financial statements. In our view, the end result of Method B seems to be information that is more useful to users of financial statements.

However, we do have a caveat. We think that Method B will demand further dialogue and outreach by the IASB with users of financial statements across all countries. We pose such caveat because in our experience it is not rare to find users of financial statements with different objectives for the same type of information. We think that Method B may enhance such differences between users, that will have to be addressed by the Board hence forth.

In addition, Method B seems to be a fundamental change to the way disclosures are required. We note that such a change will demand a huge effort by the IASB and we would be interested in understanding how the IASB intend to plan for such change in terms of their resources.

Question 13

Do you think that the Board 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?

Answer to question:

Yes. We think disclosure requirements should be located in a single Standard (or set) because of the same reasons we responded in the previous answers: we think it will improve the usefulness and effectiveness of financial statements in the sight of preparers.

In addition, we think that having a single disclosure Standard (or set) will make it easier for preparers to identify, think about and create the disclosures that are most useful and better organised for its own entity. We think that a potential good effect of a single disclosure Standard (or set) is that it may bring the accounting department that produces the information for financial statements even closer to the users of an entity's financial statements. The end effect of such enhanced proximity may be a better informed capital market, which is something that we fully agree.

Question 14

This CVMtion 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 CVMtion (the main features of the approach are summarised in paragraph 8.2 of this CVMtion)?

(b) Do you think that the development of such an approach would encourage more effective disclosures?

(c) Do you think the Board 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 Board 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 Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

Answer to question:

Question 14 (a):

We think that the most important feature of the NZASB staff's approach is the approach to address the issue of prescriptive language (paragraph 8.4 (b)) because the issue of applying judgment (paragraph 8.4 (a)) is being addressed by the IASB in other parts of the Disclosure Initiative[2], including in CVMtion 7 of this Discussion Paper. Nevertheless, we think that the other approaches are also useful in helping preparers to apply materiality. Regardless of Method A or B we support the features of the NZASB staff's approach. However, we urge the IASB to keep its focus on the comparability of financial statements when developing a proposal for the features in paragraph 8.2 (b).

Question 14 (b): Yes (also see answer to Question 14 (a)).

Question 14 (c): Yes. We also think that the IASB could prioratise a timing issue related to this question. We think that the NZASB staff's approach features (summarised in paragraph 8.2) are all interlinked and will probably be considered and developed as a package, except for paragraph 8.2 (d). We think that the feature in paragraph 8.2 (d) can be used in an overall review of standards separately from the other features. We think that reviewing the standards with the objective of removing language that is prescriptive should be a short-term project of the IASB that could aim to achieve quick-wins and could be executed separated from the rest of the features of paragraph 8.2.

In our view, stakeholders already know which are the standards that have prescriptive language that may be causing boilerplate disclosures. Prescriptive language could be removed from those disclosure requirements in an Annual-improvements format, enabling quick-wins. We have included a table in our answer to Question 15 that lists some of these requirements that may be considered too prescriptive and hence preventing the application of materiality.

[2] The Materiality Practice Statement, the IAS 1 Amendments and other efforts of the Disclosure Initiative.

Question 15

Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in CVMtion 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 Board 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.

Answer to question:

It is our experience that auditors and regulators sometimes tend to argue that the wording 'as a minimum' followed by a list of requirements for information does not permit the appropriate application of materiality. Such experience is aligned with what the IASB has heard from others. Therefore, we do think that prescriptive language can prevent the full application of materiality.