What we heard today

• What is the problem?
  – Not clear we agree what the problem is, but preparers and investors seem to agree that financial reports are an important communication tool.
  – Preparers want to tell a story and investors want to hear their story (business model).
  – There are impediments
    – Standards – compel (HSBC)
    – Auditors - compliance
    – Regulators – compliance
What we heard today

• **Materiality**
  – Application in practice is a challenge – and it is entity-specific
  – The IASB has a responsibility to provide more application guidance
  – Onus sits with the entity to rebut the presumption
  – Linking back to the disclosure objective or the business model might help

• **Better linkage**
  – Linked information (context)
    – Policies, risks and the related financial information
  – IFRS 8 *Operating Segments* - Post-implementation Review
    – Investors value having Management Commentary tie-in with the financial statements
What we heard today

• Form matters
  – The order matters … importance
  – The IASB should not constrain preparers

• Technology might help, eventually

• Scope
  – Integrated reporting
    – Country-by-country reporting
But …

• There are some legal, institutional barriers
• The line of least resistance is to simply disclose
• The cost of a disclosure failure is high
• The incentives are not right …
Next steps

• The Conceptual Framework is important
• Need to take a holistic view of financial statements and financial reporting generally
  – Working draft considered by the IASB in February 2013
  – The work you have heard about today will be considered as we develop the Framework
  – Industry-specific guidance?
Next steps

• Need to work on several fronts

• Work with regulators
  – Focus on areas where we seem to have the biggest problems
  – Dynamic disclosures
    – Working with others on ‘application’ – ie what is important today

• Technology
  – XBRL
  – But, how do we reconcile this with the ‘overwhelming’ sense that form matters?
Next steps

• Drafting
  – Objective
  – Basis – explain why
  – Indicative disclosures
  – Rate-regulated activities?

• Materiality
  – Education material / application guidance
  – Rebuttable presumption
  – Permission to leave out (HSBC)
  – How to assess what is important
Next steps

• Quick wins?
  – IFRS Advisory Council feedback
  – Where are the main problems?
    – Users
      – Working with users (CRUF, CMAC etc)
      – eg net debt
    – Preparers
      – Disclosure burdens / unhelpful Standards
    – And sharing information ….
  – Mid-caps
    – Proportionality
  – IAS 1 *Presentation of Financial Statements* (Materiality, important accounting policies, ‘permission’ to use other forms, sub-totals etc)
Next steps

• Feedback Statement

• IFRS Foundation
  – Re-thinking our own financial statements
  – What is important to us and the readers of our financial statements?
  – Each conversation between the entity and its investors/users will be unique
  – Short-term, if you think you have to disclose something at least relegate it to the back …. Then get brave and bin it.