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Topic **Losing the excess baggage – reducing disclosures in financial statements to what’s important**

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretation Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.



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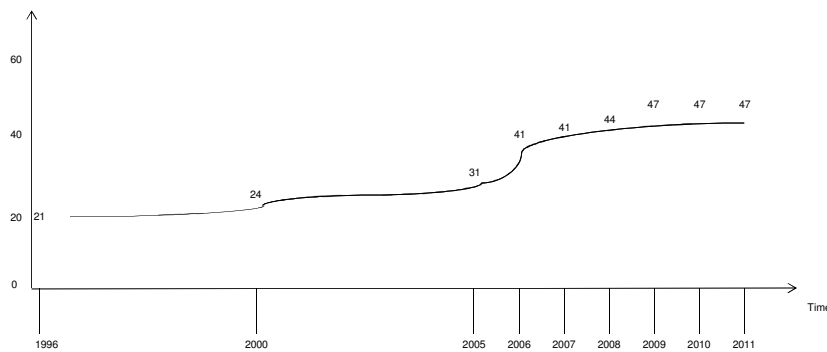


Losing the excess baggage –

reducing disclosures in financial statements to what's important

Professor Isobel Sharp CBE


Financial statements – one country



Over 15 years, 124% increase

2011 range is 20 to 134 pages







The challenge

- Review, individually and as a whole, the levels of disclosure requirements in existing IFRSs
- Recommend deletions and changes to those requirements
- Report by end June 2011


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Existing IFRSs

In scope	Out of range
<p>IFRS 1, 2, 3, 5, 6, 7 and 8</p> <p>IAS 1, 2, 7, 8, 10, 12, 16, 19, 20, 21, 23, 24, 29, 33, 36, 37, 38, 40 and 41</p>	<p>IAS 26 and 34</p> <p>IFRS 4 and 9</p> <p>IAS 11, 17, 18, 27, 28 and 31</p> <p>IAS 32 and 39</p> <p>IFRS 10, 11, 12 and 13</p>

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How to do it?

- Systematic, reasoned and logical manner, not “I don’t like this bit”
- 2010 Conceptual Framework for Financial Reporting
 - objective to provide financial information.....
 - relevant capable of making a difference in the decisions made by users


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Doing it

- Using the Conceptual Framework
- 13 other matters
- Disclosures have built up standard by standard
- ‘Top-down’ lens

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What's important?

- “Information is material if omitting it or misstating it could influence decisions that users make ...”
- In practice

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graph TD
    Q{Is the item material?} -- Yes --> A[Disclose the item and all associated information in the notes]
    Q -- No --> B[No further action]
    
```

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Using more wisely materiality

Material item


Material information

Not material

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graph TD
    Q1{Are you considering (a) an item or (b) information for inclusion in the notes?} -- Item --> Q2{Is the item material (IAS 1, 29)?}
    Q1 -- Information --> Q3{Is the individual piece of information material, so as to require disclosure in the notes (QC21, CF)?}
    Q2 -- Yes --> A1[Disclose item in statement or note]
    Q2 -- No --> A2[Aggregate and no further action]
    Q3 -- Yes --> A3[Disclose information in notes]
    Q3 -- No --> A4[No further action]
    
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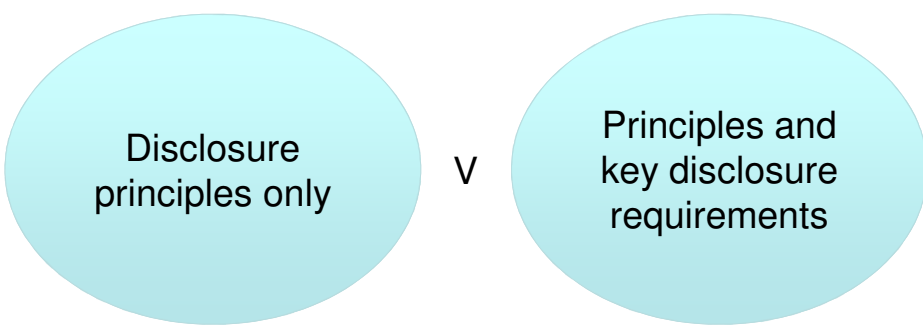
Applying materiality

- Using “material information” phrase more widely
- Likely impact
- Not using “immaterial” but using “not material”
- We have not adopted something higher than the “material” test eg significant, key, major or really material
- Clear message to regulators

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How radical should we be?





Disclosure principles only

V

Principles and key disclosure requirements

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Major changes in the standards

- Add, where needed, the disclosure principle

IAS 23 “to provide material information that enables users to understand the impact of the capitalisation of borrowing costs on the financial statements”




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Major changes in the standards

- Add, where needed, the disclosure principle
- Propose specific deletions and changes
 - delete merely ‘encouraged’

IAS10 “The following are examples of non-adjusting events after the reporting period that would generally result in disclosure.”





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Major changes in the standards

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 - delete merely ‘encouraged’
 - replace many detailed reconciliations with a summary of material changes


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 - option not to repeat summary of unchanged accounting policies but to give reference

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Major changes in the standards

- Add, where needed, the disclosure principle
- Propose specific deletions and changes
 - delete merely ‘encouraged’
 - replace many detailed reconciliations with a summary of material changes
 - option not to repeat summary of unchanged accounting policies but to give reference
 - emphasise materiality throughout


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Potential impact

- Overall 30% reduction in pages
- 37% for the existing standards considered
- Clearly ballpark figures but material!

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What's next?

- Not consulted publicly
- Invite IASB to do so
- Questions in the report
- Suggest also short web-based questionnaire
- Discussion paper
- Exposure Draft in due course
- National initiatives

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