

AGENDA PAPER

IFRS Advisory Council Meeting

LONDON 25 – 26 February 2013

Agenda ref 6

TOPIC Disclosure

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

Disclosure

Presentation for February 2013 IFRS Advisory Council meeting

February 2013

International Financial Reporting Standards

Agenda Paper 6
IFRS Advisory Council—February 2013

Disclosure

Alan Teixeira

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- At the February meeting of the IFRS Advisory Council we have a 75 minute session on Disclosure. On 28 January 2013 the IASB held a public forum to discuss disclosures. That initiative is the first stage in our review of disclosure requirements.
- At the IFRS Advisory Council meeting I will give you a brief summary of the results of a survey we conducted into disclosure as well as a summary of the public discussion forum.
- We will publish a Feedback Statement summarising what we heard at the forum, around the end of March. The Feedback Statement will also include planned activities of the IASB—our next steps.
- The IASB has yet to consider collectively what actions would be appropriate for it to take. The staff are currently developing a plan with specific proposals. Among the activities the staff are considering :
 - Narrow scope amendments to IAS 1 *Presentation of Financial Statements*, to:
 - modify some paragraphs that are widely perceived to be too inflexible and are prevent preparers from improving how they present information; and
 - Clarify the purpose of the paragraph that states that an entity need not provide a specific disclosure required by an IFRS if the information is not material.
 - A separate project on *materiality*, assessing whether the IASB should develop application guidance or more education material on this subject.
 - A more general review of disclosure requirements, in parallel with the Conceptual Framework project.
 - Modified language (drafting) of disclosure requirements in forthcoming exposure drafts.
- In addition, the IASB will include disclosure principles in the new Conceptual Framework. The IASB is also keen to continue its dialogue with other parties.
- At the Advisory Council session I will provide additional information about these proposals and seek initial reactions from Council members which the staff can factor into its recommendations to the IASB.

Background

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Purpose

Agenda Consultation 2011

- ‘Many respondents think that a **disclosure framework** is needed to ensure that information disclosed is more relevant to investors and to reduce the burden on preparers’

The IASB decided to host a Discussion Forum

- Explore opportunities to see how disclosures can be improved and simplified within the existing disclosure requirements
- Foster dialogue between preparers, auditors, regulators, users of financial statements and standard-setters
- Get a clearer picture of the ‘disclosure problem’ and its causes

Survey on disclosures launched

- In conjunction with the Discussion Forum
- To gain a clearer picture of the ‘disclosure problem’ in advance of the Discussion Forum

Disclosure Survey

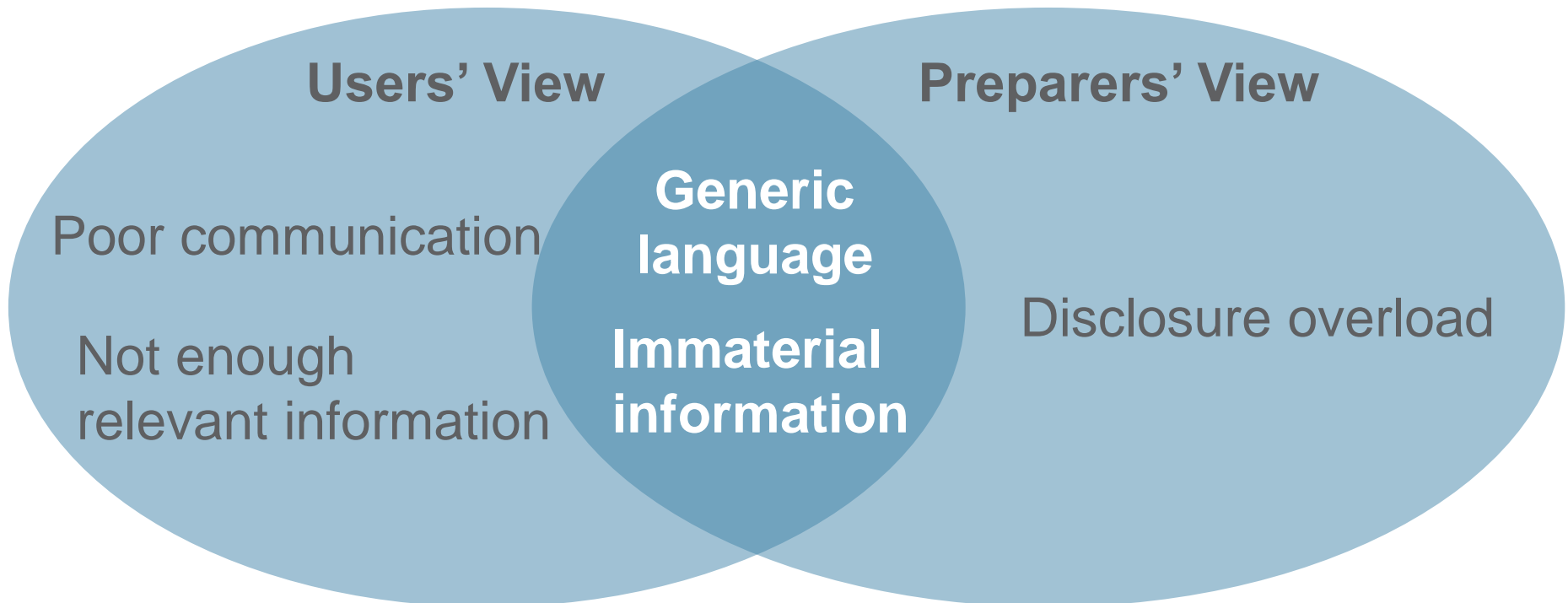
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Survey preliminary analysis

- 225 responses to the survey
- Approximately
 - 50% preparers
 - 20% users
 - 30% other (includes regulators, auditors, industry organisations)
- Initial analysis focused on users and preparers
- There is a disclosure problem (over 80% agree)
- Preparers and users view the problem differently

Survey preliminary analysis

Preliminary Survey Results



Discussion Forum

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- Held on 28 January 2013
- Over 120 external attendees at the Discussion Forum on disclosures, plus:
 - About 40 external people listened to the morning webcast
 - About 25 external people listened to the afternoon webcast
- A further 29 IASB members/staff attended

- No clear agreement on what the disclosure problem is
- Preparers and investors do 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. The objectives of the IASB, the auditors and regulators are appropriate and beneficial, but there is a perception that:
 - Standards—compel, rather than guide
 - Auditors—compliance rather than communication
 - Regulators—compliance rather than communication

- Materiality
 - Application in practice is a challenge
 - The IASB has a responsibility to provide more application guidance
 - Onus rests on the preparer to rebut a presumption that information should be disclosed
 - Linking back to the disclosure objective or the business model might help
- Better linkage is required
 - Linked information throughout report (context)
 - Policies, risks and the related financial information

Discussion Forum—what we heard

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- Form matters
 - The order matters ... importance
 - The IASB should not constrain preparers
- Technology could help
 - Tension between conformance and comparability
- Scope of financial reporting
 - Integrated reporting
 - Country-by-country reporting

But ...

- There are some legal and institutional barriers
- The line of least resistance is to simply disclose
- The cost of a failure to disclose is high
- The incentives are not right ...

Next steps

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- Plan to publish a Feedback Statement on the survey and Discussion Forum at the end of March 2013.
 - Summary of other work performed (by other bodies)
 - Survey results
 - Plenary presentation summaries
 - Panel discussion summary
 - Next steps

Possible next steps

- Amendments to IAS 1
 - Materiality
 - Presentation order
 - Accounting policies
 - Minimum disclosure requirements
 - Addressing investor and preparer ‘concerns’
- Materiality
 - Conceptual Framework
 - Application Guidance

Possible next steps

- Drafting of disclosure requirements ‘... an entity shall ...’
- Broader review of disclosure requirements
 - Timing
 - Conceptual Framework
- Additional consultation and outreach
 - Additional ‘mini’ discussion forums
 - Special interest groups
 - Mid-cap entities
 - Other parties in the financial reporting supply chain
 - Regulators
 - Auditors

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