

## International Financial Reporting Standards



# The disclosure problem: setting the scene

Discussion Forum – Disclosures in Financial Reporting  
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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

# Agenda

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- What we have heard
- What others have done
- The way forward

## What we have heard

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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

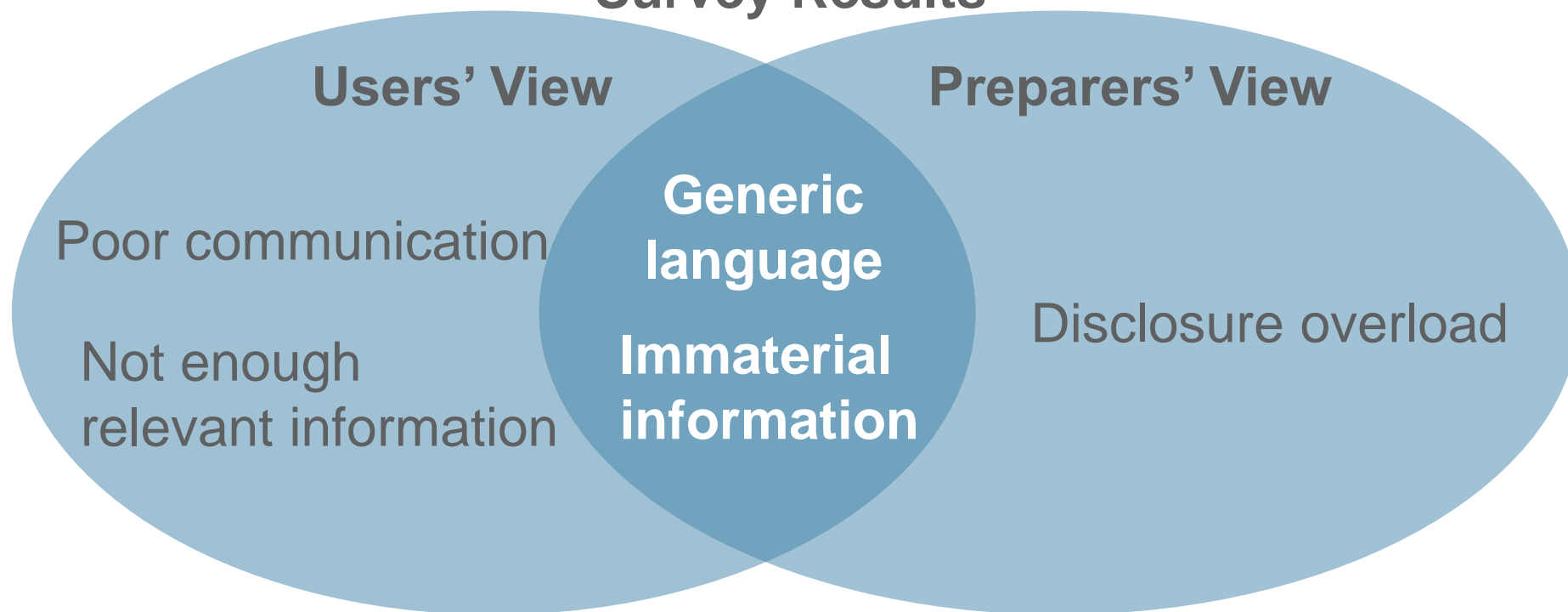
# Disclosure Survey

- Quality and quantity of responses to the survey exceeded expectations
- 225 responses received
- Approximately
  - 50% preparers
  - 20% users
  - 30% other (includes regulators, auditors, industry organisations)
- Initial analysis focused on users and preparers
- Detailed analysis in Feedback statement

# Disclosure Survey - Problem

- There is a disclosure problem (over 80% agree)
- Preparers and users view the problem differently

## Survey Results



- All parties need to work together to improve disclosures
- All disclosures need to be improved - not just those contained within the financial statements
- Some messages for the IASB
  - Materiality
  - Principles-based disclosure guidance – examples not rules?

# What others have done

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# EXCESS BAGGAGE – ICAS/NZICA

- Reducing disclosures to what's important
- Focus on existing standards
- Conceptual basis needed
- Trust management? – more principle based disclosures?
- Materiality
- Super-materiality?
- Specific ideas for reduction
- Behavioural aspects
- Reduce disclosures by 30%
- Follow-up



# Work performed by ESMA in relation to the Disclosure debate

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## Consultation Paper '*Considerations of Materiality in Financial Reporting*'

- Issued end-2011, Roundtable Oct-2012, Feedback Statement to be published shortly

### Key objective

- Contributing to the consistent application of the concept of materiality
- Disclosure requirements – one of the attention area to regulators

### Key messages

- Materiality is mostly well understood but there is some diversity in application
- Proper application of materiality could address the '*disclosure problem*'
  - lack of relevant disclosures, providing immaterial/irrelevant disclosures
- IASB is the right body to provide additional guidance on materiality
  - Application of materiality to disclosure requirements and prioritise the relevant information
  - Assessments of qualitative aspects in materiality
  - Consistency with audit requirements
  - Application of materiality in Interim financial reporting

# □ Towards a Disclosure Framework for the Notes

## Why we have issued this Discussion Paper

- The objective of a Disclosure Framework is to ensure that all and only relevant information is disclosed in an appropriate manner, so that detailed information does not obscure relevant information in the notes to the financial statements.
- We have focused on the notes because IFRS apply primarily to financial statement. In Europe and elsewhere, there is urgency for improvement and much of the progress made on the notes can benefit other parts of financial reporting.
- We believe that in doing that it is important to:
  - Clarify the purpose of the notes;
  - Develop principles to define what information should be included in the notes;
  - Consider the form in which disclosure requirements are set;
  - Strengthen the application of materiality;
  - Articulate the key features of effective communication.

# □ Towards a Disclosure Framework for the Notes

## What do constituents think

- **The analysis of comments is under way. The preliminary indications are:**

Purpose of the notes	Defining the purpose is a needed step. Prevailing support for the focus on transactions up to the reporting date.
Principles to identify relevant information	Support for a principle-based approach. Broadly, categories and indicators in the DP are seen as useful starting point
Form of the requirements	Split views. Some support for a 'tiered' approach (common core set plus expanded set to be assessed by each entity).
Materiality	General support for more guidance on the application on materiality, but avoiding anything that could become a checklist.
Communication	General support for the proposed features. A standardised ordering seems preferable. More attention should have been given to the role of technology (XBRL).

# FASB Invitation to Comment *Disclosure Framework*

## ***Objective***

Improve effectiveness of notes by more clearly communicating information important to users; sharper focus should reduce volume

## ***Major points***

- Decision process for the Board (*Concepts Statement*)
- More flexible requirements (*Various ASUs*)
- Decision process for reporting entities (*Single ASU*)
- Organization & formatting of notes (*Other*)

# FASB Invitation to Comment *Disclosure Framework*

## ***Key Areas of Comment by Respondents***

- Broad support for objective
- Concerns about
  - Forward looking information (boundary)
  - Similar information in SEC requirements
  - How standard setters make standards flexible
  - How preparers implement flexibility (materiality and/or relevance guidance)
  - Accounting policy note



## Disclosure and its Audit Implications

- Disclosures Discussion Paper (January 2011)
  - Issues explored: financial reporting disclosure trends; audit issues (views on sufficient appropriate audit evidence; supporting evidence from management; auditors work effort; materiality and evaluating misstatements)
- Feedback Statement (January 2012)
  - Sharing what the IAASB had learned from the responses
  - Broad support for IAASB initiative, but recognition that improving disclosures will require collaboration
- Project approved (September 2012)
  - Determine if revisions to ISAs required; develop revisions
  - Determine how to present the revisions (individual ISAs or one ISA)
  - Determine whether other non-authoritative guidance needed and develop
- Ongoing liaison with wide range of stakeholders

# The way forward

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# How we are responding

- IASB responses
  - Discussion forum
  - Conceptual Framework project
- Outcomes
  - Feedback statement, including feedback from the survey
  - Input into the Conceptual Framework project
  - Other?
- How you can respond

# Thank you

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