

MEETING WITH SMP TECHNICAL ISSUES WORKING GROUP on 27 July 2017
IASB DP/2017/1 Disclosure Initiative – Principles of Disclosure

Present: Gary Poon, Poon & Co

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Colin Chau, RSM Hong Kong
Philip Fung, Lak & Associates CPA
Anntice Lai, Baker Tilly
Kenneth Lau, Crowe Horwath
Edmund Wong, Patrick Wong CPA
Basilia Wong, HLB Hodgson Impey Cheng

Eddy Wong, Member Support, HKICPA
Anthony Wong, Standard Setting, HKICPA
Eky Liu, Standard Setting, HKICPA
Kam Leung, Standard Setting, HKICPA

Apologies: Sharon Chan (Grant Thornton), Elizabeth Law (Law & Partners), Jimmy Yip (Mazars), Thomas Wong (Nexia Charles Mar Fan & Co)

The Disclosure Problem

From both SMP and SME perspectives:

- There is too much information that an entity need to disclose. SME cannot handle the disclosures by themselves and it is costly for them.
- Therefore, the disclosures are usually too general and boilerplate.
- IASB should assess the cost and benefit when setting disclosure requirements.

Principles of effective communication

From both SMP and SME perspectives:

- The seven principles by itself will not be overly effective.
- IASB should specify how to apply the concept of materiality to these seven principles; as well as how it interacts to individual standard requirements.
- The seven principles can be made mandatory, notwithstanding materiality and judgment.
- One SMP commented that there should be a conceptual basis linking the recognition of financial statement items with its disclosures.

Roles of primary financial statements and notes

From both SMP and SME perspectives:

- The location of information 'in the primary financial statements' or 'in the notes' should not be specified. Companies should be allowed to apply professional judgement to determine where to present/disclose the information according to the entities' circumstances.
- Primary financial statements should represent a birds eye view of performance; whereas the notes are there for more detail if the user wants to drill down.
- One SMP commented that there are too many line items presented on the face of the primary financial statements, e.g. the OCI line items under para 82A of IAS 1. The primary financial statements should be simple and summarise the entity's financial information.
- There is a concern that if the roles of primary financial statements and notes are prescribed, in the future, the roles/priorities of the specific notes will also be prescribed.

Location of information

- SMPs expressed the following concerns with respect of the proposals:

Principles for IFRS information:

- Placing IFRS compliant information outside financial statements may increase auditor's responsibilities, and potential liabilities to intended and unintended users.
- Finalization of information in the annual report is sometimes later than the approval of the financial statements. There may be practical difficulties for auditors to make sure that those IFRS information are properly disclosed in the annual report.

Principles for non-IFRS information:

- SMEs do not usually disclose non-IFRS information within the financial statements. Some listed companies may disclose performance measures, e.g. underlying profit, in the financial statements or MD&A.
- Adding non-IFRS information in the financial statements may increase auditor's responsibilities and potential liabilities.
- SMPs may not have the time and expertise to audit non-IFRS information.
- IASB should neither prohibit nor encourage reporting entities to disclose non-IFRS information.

Use of performance measures

- SMEs do not usually present EBIT/EBITDA. However, they think that these two performance measures are usually reconcilable from the financial information presented and therefore principles are not required.
- SMPs think that disclosure of 'unusual or infrequently occurring items' is particularly important for SMEs who have borrowings from banks. As banks will ask SMEs to explain these items in detail.
- However, SMPs think that the IASB should not prohibit or encourage performance measures including 'unusual or infrequently occurring items' as it will impact auditors responsibilities.

Disclosure of accounting policies

- SMPs think that the IASB's preliminary guidance on accounting policy disclosures is already happening in practice today.
- They think that the guidance will not help make the accounting policies more entity specific, as it just categories generic disclosures.
- Rather, what makes accounting policy disclosure more entity-specific is how an entity writes their accounting policy.
- A concern expressed by an SMP was that the categorisation of accounting policies may lead to categorization of different notes in the financial statements.

Drafting disclosure requirements

- SMPs think that there is a need to re-draft the standard-level disclosure requirements so that they are consistent with the concept of materiality in IAS 1 and the proposed principles of effective communication.
- Among the two approaches, SMPs prefer approach A (information focus) because this approach aligns more closely to the items presented on the statement of financial position and statement of comprehensive income.
- SMPs made the following suggestions to the NZASB's staff example:
 - The wordings used for the disclosure objectives in each paragraph are quite repetitive. IASB should streamline the objectives, e.g. use concise wordings or prepare just one disclosure objective for each standard.
 - Make use of different headings (the approach used in IFRS 7) to show clearly what types of information an entity needs to disclose or consider whether to disclose.