

Minutes of meeting with Financial Reporting Council (FRC)

30 August 2017

Present: Representatives of the FRC
Christina Ng, HKICPA, Standard Setting
Kam Leung, HKICPA, Standard Setting
Eky Liu, HKICPA, Standard Setting
Sanel Tomlinson, HKICPA FRSC member

Overall

- FRC is supportive of the IASB's Principles of Disclosure project but considers that the DP does not go far enough to address the current disclosure problem.
- FRC considers that behaviour and lack of understanding of the financial standards contribute to the current disclosure problem identified through its experiences of carrying out investigations and enquiries.
- With diverse demands for disclosures by different financial statement users, the financial statements inevitably incorporate more and more disclosures which not only leads to cluttering of information but also reduces the understandability of financial statements, in their experience

The Disclosure Problem and Principles of effective communication

- FRC experience shows that the driver of the disclosure problem is that preparers and their auditors may not understand the underlying spirit/requirements of the financial reporting standards they are applying, and the objective of the corresponding disclosures. This is because they probably have not been involved in the standard setting process.
- FRC also notes that preparers tend to disclose more to avoid being challenged by regulators irrespective of whether such disclosure is relevant to users of financial statements.
- FRC thinks issuing another written publication will not solve the disclosure problem—instead, education is crucial to address this problem. In particular, the FRC suggests that there be preparer education forums where accountants in business can share with their peers on how to apply the standard and comply with disclosure requirements from an industry/transaction perspective.
- FRC also thinks that 'relevant to the entity' should be added to the principles of effective communication. That is, entities can make a judgment on whether specific disclosures are relevant to the entity and therefore need to be disclosed in the financial statements. For example, a bank should be able to decide the

extent of disclosures related to its property, plant and equipment (PPE) by reference to the relevance to its operating activities. In comparison, PPE may be more relevant to a manufacturing company.

Roles of primary financial statements and notes

- FRC considers that the guidance included in the DP regarding the roles of primary financial statements and notes does not go far enough in radical thought. The guidance may also drive IFRSs to become a rules-based standard.

Location of information

- FRC considers that the principles proposed in the DP about the location of information are clear enough on where to disclose information within the annual report.
- Having said that, FRC considers that financial statements should only contain IFRS disclosures--FRC prefers not to allow companies to disclose IFRS information outside the financial statements, and non-IFRS information inside the financial statements.

Use of performance measures

- When reviewing the financial statements of listed entities, FRC focuses on the areas that are material to the financial statements and assesses whether those areas comply with accounting requirements. FRC does not have much experience in reviewing the disclosures of performance measures and therefore, does not have any comment on the general principles for the fair presentation of performance measures.
- FRC considers that the separate presentation of unusual and infrequently occurring items is not helpful and may bring back the problems previously created by allowing the disclosure of 'extraordinary items'.

Disclosures of accounting policies

- FRC considers that the three categories of accounting policies proposed in the DP are too rule-based.
- Accounting policies disclosed by entities are often too generic and not specific enough.
- In order to determine what and how accounting policies should be disclosed in the financial statements, it is important to clarify who are the primary users of the financial statements. Also on the assumption that users of financial statements should have a reasonable degree of financial knowledge and a willingness to

study the information with reasonable diligence, there is no need to disclose all the accounting policies in the financial statements, only those that are relevant to the understanding of the entity and its business/transactions.