

HKICPA Roundtable Discussion: Better Communication – the Future of Financial Reporting

Date: 31 August 2017

Time: 4:00 pm – 6:00 pm

Venue: HKICPA Boardroom, 37/F, Wu Chung House, Wan Chai

Summary of observations

The Disclosure Problem

- Preparers generally agree with the causes of the disclosure problem. A few preparers note that the requirements from prudential regulators, which vary across jurisdictions, contributed confusion to the disclosure problem.
- Some preparers consider that accountants in Hong Kong typically favor having structured checklists to follow, so they do not consider the users' perspective. To move from providing boilerplate disclosure from a checklist, there has to be a drive from top management to require the 'real' economic story of the company through disclosure that may or may not be IFRS requirements.

Principles of effective communication

- Preparers agree with the seven principles of communication, and welcome such principles. The principles of 'clear and simple' and 'free from unnecessary duplication' are considered the most important ones.
- A few preparers consider that the principle of 'entity-specific' is difficult to apply in practice, due to the risk of disclosing overly sensitive entity-specific information to their competitors. Others think more disclosure does not matter as competitors already know.
- Preparers also think it was important that the volume of information disclosed is controlled. Therefore, they generally agree that materiality is an important concept to apply against all the principles of effective communication, but it has to be balanced in that small matters today may become big, or represent risks or opportunities of interest to shareholders.

Location of information

- Preparers welcome the principles included in the DP for the location of information, with some seeing it as encouragement to include non-IFRS information inside the financial statements.
- They note that currently, to gain more holistic insight into a company, users have

to refer to the annual report as a whole. This is because the financial statements generally only provide audited financial figures, whereas the other parts of the annual report give more insight as to the company's story.

- Some preparers find it difficult for them to draw the line of where to disclose non-IFRS information. Other preparers note that their auditors do not allow any non-IFRS information inside the financial statements.

Use of performance measures

- Preparers generally agree with the principles for the fair presentation of performance measures.
- One preparer considers it useful to include the benchmark within the industry/sector in the financial statements for comparison.
- One preparer notes that banks generally do not present EBITDA and EBIT as performance measures.
- In terms of unusual and infrequently occurring items, one preparer notes that her entity is disclosing similar nature of items in the MD&A when reconciling the underlying performance of the group to IFRS profit or loss. These items include impairment of PPE and unrealized derivative income.

Disclosures of accounting policies

- Preparers generally agree with the three categories of accounting policies. They also consider it important that accounting policies have to be entity-specific.
- In terms of the location of accounting policies, some agree putting them at the front was disruptive and consider that they can be located at the end of the financial statements. Some agreed only policies of relevance to the accounts were needed, limited to where choices/changes had been made. Another preparer suggests to explore disclosing the accounting policies on social media in order to avoid repeating the accounting policies in the financial statements every year.

Disclosure objectives and requirements

- Most preparers prefer Approach A - Information Focus in drafting disclosure objectives as this approach is more aligned to, and consistent with, the current disclosure approach. They do not see the need to make a dramatic change in terms of disclosure approach. They are concerned that any dramatic changes (such as Approach B) would create unintended consequences.
- These preparers prefer locating the disclosure objectives in an individual standard instead of within a single standard. They also consider that the IASB

can issue more guidance to remind entities to prepare disclosures in a holistic way.

- One preparer agrees that Approach B – Activity Focus can encourage more integrated reporting and present the information about entities in a more holistic way. Her company is disclosing information in a way similar to Approach B in their annual report.