IASB & HKICPA Roundtable Discussion on Disclosures in Financial Reports

Date: 5 September 2017

Time: 12:30 pm – 2:30 pm

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

<u>Summary of observations</u>

Principles of effective communication

Disclosure Problem

- Participants generally think that financial reports contain too much information, but that the information does not tell them the story of the company.

Seven principles

- Participants generally agree with the principles outlined in the DP. Additionally, they think that having a meaningful breakdown is very important.
- One participant considers that too much cross-referencing makes the financial report difficult to read, particularly in a digital format.
- In terms of formatting, participants think that using graphs/charts as a visual aid to help identify the trend of recurring earnings is helpful.

Location of information

- Participants welcome the idea of having guidelines for the location of information. Generally, participants also welcome some form of assurance or review from auditors (at least to see if it was misleading) on non-IFRS information. One participant notes that it is difficult for auditors to audit/understand industry-specific KPIs.
- Some participants consider that disclosing the underlying drivers (i.e. KPIs or an explanation) of financial information inside the financial report is useful. This is because financial figures only represent the 'end result' of the underlying drivers. Other participants think that this type of information should be incorporated into the MD&A or Chairman's message instead.

Accounting policies

- Most participants think that accounting policies are useful, but that it should be cross-referenced and clearly linked to the relevant notes. In particular, it is important to keep it succinct—and only present it if it is very relevant to that company or industry.

Use of performance measures

Need for non-IFRS information

- Most participants welcome entities to provide relevant non-IFRS information, such as KPIs or operational statistics, because these information:
  - are the underlying drivers of the performance of entities;
  - explain how entities achieved their performance;
  - help users understand the quality of earnings – how stable / recurring the profits are.

  These participants consider that the format of the information is not important. The information should be disclosed in a transparent way.
- Some participants suggest preparing two sets of reports – one is an audited financial statement and the other is a non-IFRS report which contains industry-specific KPI disclosures.
- Most participants consider that there should be some oversight by auditors on quantitative non-IFRS information so that those information is not misleading or unreliable.
- One buy-side analyst considers that the current reporting is already too complex (with both IFRS and non-IFRS information in the same report). He does not think that there is a need for entities to disclose more information as buy-side analysts are paid to take risk.

Issues faced when dealing with performance measures and the approach to solve the issues

- Participants were asked to give a show of hands on what they think the significant issue with performance measures is:
  - Calculations are not explained or labeling is unclear (3 participants)
  - Unclear reconciliation to amounts in the financial statements (2 participants)
  - Lack of consistency in calculation from one period to next (1 participant)
- The preferred approach in addressing the issue are:
  - Performance measures should be reconciled to IFRS measures (2 participants)
  - Performance measures should be reconciled to IFRS measures and with additional disclosure requirements (4 participants)

Comments on the principles discussed in the DP

- Participants generally agree with the principles. They consider there is no need to define the different types of performance measures in the IFRS Standards.

- One participant would like to have at least a summary of 5 years' performance measures so that users can analysis the trend.
- In terms of 'unusual and infrequently occurring items', one buy-side analyst considers that there is no need to have such a separate category as entities could inappropriately apply the definition of 'unusual and infrequently occurring', which may confuse the users of financial statements. This analyst, together with another, notes that analysts do their own adjustments to the reported figures and therefore, it is important that there is sufficient break-down / disaggregation of items provided in the financial statements, e.g. a break-down of other operating expenses / income or how underlying profits are reconciled to the IFRS profits.