



# The future landscape of financial reporting disclosures

The International Accounting Standards Board's *Disclosure Initiative* explores how disclosures in financial reporting can be improved. The *Disclosure Initiative* is made up of a number of implementation and research projects which, collectively, will ultimately have a universal impact on the preparation of general purpose financial statements in the future.

The Institute considers the *Disclosure Initiative* in its entirety to be of fundamental importance especially in light of Hong Kong's position as an international financial centre. A lack of useful and quality financial reporting disclosures will have implications for investor and creditor trust.

IASB Chairman Hans Hoogervorst recently commented that, "Financial statements are meant to be a means of communication, and should not be viewed as a mere compliance exercise. Management needs to take a step back and consider whether they are providing the right level of information in the financial statements and whether [the financial report] is useful."

What does this mean for us? In the road ahead, some fundamental conceptual clarifications and/or changes will transform the way financial reports are prepared, presented, disclosed and

interpreted by users. If you would like to have a say in shaping the future of IFRS disclosures, please contact [outreachhk@hkicpa.org.hk](mailto:outreachhk@hkicpa.org.hk) to understand how you can be involved.

## An overview of what to expect in the near future

### Proposals for determining materiality for disclosures

Management are often uncertain about how to apply the concept of materiality when preparing financial reports and therefore use the disclosure requirements in the standards as a checklist. This has often led to disclosure overload or clutter. The Institute's invitation to comment on IASB exposure draft (ED/2015/8) *IFRS Practice Statement – Application of Materiality to Financial Statements* (which is equivalent to the IASB exposure draft of the same name), issued in November 2015, proposes a guideline to help preparers use judgment when applying the concept of materiality in preparing financial reports. The exposure draft proposes that the practice statement would serve as a guide only and would not be mandatory for application. The Institute is broadly supportive of the aims of the exposure draft and provided

recommendations for the IASB's consideration on how to improve the guide. The Institute's comments are available on its website.

### A discussion paper on the principles of disclosure

The aim of the project is to help management manage the volume of information disclosed in financial reports and improve the quality and usefulness of those disclosures. To do this, the IASB is identifying and developing a set of principles of disclosures for IFRS. As a starting point, the focus is on reviewing the general requirements in IAS 1 *Presentation of Financial Statements* and considering how it may be revised. A discussion paper on the principles of disclosure is expected to be published by the IASB in the second quarter of 2016.

Based on current discussion, the discussion paper will consider a two-tier approach to providing/preparing information for financial reporting. The first tier would consist of required disclosures, subject to materiality, and the second tier would require management to consider whether additional information, depending on facts and circumstances, should be disclosed. The proposed two-tier approach would also specify the objective for the disclosure



requirement and would emphasize the need to exercise judgment when determining the appropriate mix and extent of disclosures.

The IASB plans to use the principles of disclosure when it develops new disclosure requirements for future standards and when it makes targeted improvements to the disclosure requirements in existing standards.

**Upcoming proposals to amend IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

The narrow scope proposals aim to clarify the definitions of a change in accounting policy and a change in accounting estimate. The IASB expects to publish this exposure draft in the second half of 2016.

**Other aspects of the Disclosure Initiative**

**Amendments to IAS 1 Presentation of Financial Statements**

The narrow scope amendments to IAS 1 was issued by the IASB in December 2014 and is effective for annual periods beginning on or after 1 January 2016. Earlier application of the amendments is permitted. These amendments respond to overly prescriptive

interpretations of IAS 1 terms such as materiality and aggregation, order of the notes, sub-totals, accounting policies and disaggregation.

**Amendments to IAS 7 Statement of Cash Flows**

The narrow scope amendments to IAS 7 was issued by the IASB in January. Earlier application of the amendments is permitted. The amendments respond to investors' requests for information that helps them better understand changes in an entity's debt, which is important to their analysis of financial statements.

**Shaping the future of IFRS together**

The Institute can foresee the significant beneficial outcomes of the IASB's *Disclosure Initiative* project. If you would like to influence the quality of financial reporting globally, please contact [outreachhk@hkiacpa.org.hk](mailto:outreachhk@hkiacpa.org.hk).



This article is contributed by the Institute's Standard Setting Department