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IASB chair calls for behavioural change in disclosures

by Richard Crump 27 Jun 2013

A BOX-TICKING MENTALITY to disclosures by preparers, auditors and regulators is damaging the communicative value of financial statements, the chairman of the global accounting standard setter has said.

Speaking at the IFRS Foundation conference in Amsterdam, IASB chairman Hans Hoogervorst said the risk averse culture of throwing everything into disclosures annual reports had ballooned in size and risked becoming simply compliance documents.

"No CFO has ever been sacked for producing voluminous disclosures, while restatements may be career-limiting. Moreover, excessive disclosures can even by handy for burying unpleasant, yet very relevant information," Hoogervorst said.

Hoogervorst outlined a series of "simple" measures to delegates that he believes will "deliver tangible improvements to disclosures in financial reporting", which included clarifying that the materiality principle in IAS 1 and that a materiality assessment applies to the whole of the financial statement, including the notes.

"It can be better to exclude non-material disclosures," he said. "Too much detail can make disclosures difficult to understand.

"Many think that items that do not make it onto the face of primary financial statements as a line item need to be disclosed in the notes, just to be sure. We will have to make clear that this is not the case," he added.

The IASB would also consider adding a net-debt reconciliation requirement to provide users with clarity around what a company is calling net debt and "consolidates and links the clutter of scattered debt disclosures through the financial statements".

Hoogervorst also said that "all is not lost" on attempts to create a converged expected-loss model for recognising a banks' assets and liabilities.

The IASB has been working alongside US counterpart FASB to develop a model that will better recognise credit losses, though the two standard setters have come up with different approaches as to how this should be achieved.

Under current and contentious rules governed by IFRS, a so-called "incurred loss" model is used which, critics argue, allows banks to pay out on unrealised profits by not forcing them to make adequate provision for loans that could go bad.

FASB decided to pursue a current expected credit loss model that recognises losses up-front and distance itself from the IASB's so-called three-bucket approach.

"While this divergence in views is undesirable...all is not lost," Hoogervorst said. "Our respective proposals have overlapping comment periods... and both boards are aware of the need to do all that we can to achieve convergence or at least more convergence in this area."

Introducing an expected-loss model was welcomed as beneficial in last week's Parliamentary Banking Standards Commission report, though it raised concerns about the slow pace of change and "the particular effect this has on investor confidence in the balance sheets of banks".