SOUTH WESTERN SOCIETY OF CHARTERED ACCOUNTANTS
TECHNICAL ADVISORY COMMITTEE

Chairman:	***Mark Gifford - Gifford***			
Reporter:	***Martin Newman 18 December 2012***			
Document:	**The Future of Financial Reporting**			
Members' attendance	**Total**	**Academic**	**Business**	**General practice**
Representation				

Invitation to Comment

Q1

There was general agreement that a disclosure framework which addressed the key issues of

- what information do users need?
- where should disclosures be located?
- when should a disclosure be provided?
- how should disclosures be communicated?

would indeed help to address the current problems with disclosures. However, whilst establishing users' needs is a laudable aim, the process may lead to overkill if the Framework seeks to be all things to all groups of users.

Q2

Disclosure themes on page 16 – overall, yes, but some specific observations are:

Management commentary

- Unrecognised amounts – this is already pretty much covered by the requirement to make disclosures in the financial statements themselves e.g. FRS 12. Management may want to offer some detailed supplementary comment of it wishes to in the director's report, but the primary position for disclosure is in the financial statements.

- Risk - our view is that one of the reasons there is so much boiler plate reporting under the Risk heading is that the requirements are already far too detailed e.g. liquidity. It is unrealistic to expect directors to narrate much detail on the subject which isn't already quite obvious and well-known to even a comparatively unsophisticated reader? Similarly, taking a retail company as an example, a key risk is the absence of sufficient footfall, which will be due to circumstances partly within and partly outside management's control. There is little to be gained for the reader in describing risks such as these – they are self-evident. What really matters is management's ability to respond to such risks. We see scope for reducing clutter in financial statements if the existing requirements for Risk - based narrative disclosures were to be relaxed significantly.

Q3
Components of the financial report:

- Management commentary
- Corporate Governance
- Financial statements

We agreed with the use of the above as the key components of the Financial Report.

Q4
Placement criteria

We agreed with the criteria set out at the foot of page 21, and noted that it largely reflects current practice in the UK already.

However, if Regulators have already prescribed where certain disclosures must appear, concern was expressed about how practical it might be for the FRC to change this e.g. page 20: where there is current duplication due to e.g. two sets of regulators' stipulations, how might this in practice be changed?

Q5
Proportionate disclosures

Page 30 describes three ways for standard setters to address the issue.

- Simplification – we concur, but noted that there are not many concrete proposals here
- Principles-based disclosure requirements – agreed, but much of the content of UK financial statements is driven by Co Act / IFRS requirements, and the practical application of principles-based disclosure is therefore limited
- Differential disclosure regime page 34 – noted that this again describes UK practice already

Q6
Framework for materiality

- Agreed with the QC11 on p32.

- Also with the ASB's SoP 3.29 on p33.

- One area that where there is significant disclosure clutter is Related Party Transactions. Excepting the legal requirements / disclosures, there is scope for reduction by partly reforming FRS 8 by introducing instead a requirement to disclose in the financial statements the fact that all transactions with directors had been approved beforehand at board level, and list those, if any, which were approved in retrospect?

Q7
Other possible improvements re disclosure

Overall, the Committee felt that the current ***structure*** of UK financial reports is OK, and that it would be best to focus as much as possible on reducing the volume e.g. risks, detailed related party disclosures.

January 2013