Standard Chartered

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Dear Deepa,

Thinking about disclosures in a broader context: A road map for a disclosure Framework

Standard Chartered PLC (the Group) is an international banking group listed on the London, Hong Kong and Bombay stock exchanges. It operates in more than 70 countries principally in Asia, Africa and the Middle East.

We recognise the importance of developing a cohesive and effective disclosure framework to address the growing problem of excessive disclosure and their relevance to the users of financial statements. We therefore support the Financial Reporting Council's (FRC) initiative to encourage standard setters, regulators and other relevant stakeholders in developing a disclosure regime. Such a framework should be principles based, similar to the current International Accounting Standards Board's (IASB) *Conceptual Framework* with the objective of further enhancing the clarity and transparency of corporate financial reporting.

We are pleased to have the opportunity to comment on this Discussion Paper (DP) and our primary comments are discussed below with answers to specific questions in the appendix.

Scope and objective

It is our view that the development of a disclosure framework should strongly focus on the extent to which existing disclosures are considered decision useful by users of the financial statements. It is important therefore to first define the scope and objective of any such disclosure framework. This should not be based solely on the financial statements and accompanying notes but should address all other disclosure requirements within the broader financial report. By looking at the financial report as a whole, some of the causes of ineffective disclosure including immaterial disclosure, duplication and poor organisation can be addressed. The DP's proposals around having clearly defined components of the financial report (i.e. Management Commentary, Corporate Governance and Financial Statements) is a useful starting point in this respect, though further guidance is required to address the placement of items such as risk disclosures in the financial report.

We agree that the objective of disclosure overload is not to simply reduce the volume of disclosure but to focus on increasing the quality of material disclosure. The objective of a disclosure framework must be articulated together with recognition, measurement and presentation under the IASB's *Conceptual Framework* (rather than being carved out under a separate, freestanding disclosure framework) as these principles are interconnected and must be considered collectively when preparing and using the financial statements.

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Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference number ZC18
The Principal Office of the company is situated in England at 1 Aldermanbury Square, London EC2V 7SB
Standard Chartered Bank is authorized and regulated by the Financial Services Authority under FSA register no. 114276

We are also conscious that the form of disclosure across the financial report must be consistent with the notion of 'fair, balanced and understandable' whereby all material information is prominently disclosed and not obfuscated by immaterial disclosures. A disclosure framework should also provide guidance around cross-references to other reports and linking relevant sections to the notes in order to eliminate duplication.

We encourage the FRC to seek coordination and further cooperation among the international and national standard setters and regulators when setting disclosure requirements to reduce immaterial information presented in the financial report. This will be an important step towards having financial reporting more focused on information relevant to users.

The FRC should also support the IASB's initiative to deal with disclosures as part of its overall *Conceptual Framework* and adopt these principles for the Corporate Governance and the Management Commentary section of the annual report.

Determining the primary user group and materiality

An important aspect to increasing disclosure effectiveness is providing guidance on materiality to ensure it is better applied and understood by stakeholders. We are conscious that various user groups will have differing expectations of what is considered material and relevant. It is therefore essential that stakeholders first come to an agreement around who they consider to be the primary users of general purpose financial statements. While IFRS takes the view of the primary users being investors/shareholders, information requests from a broader user base, which includes regulators, analysts and other special interest groups, results in additional disclosure in an attempt to provide 'something for everyone'. The result of this is that the needs of investors/shareholders are diluted through supplementary information which may not be relevant to them.

Identifying the primary user group and developing a disclosure framework would ensure that materiality as it is applied to recognition, measurement and presentation is equally applied to disclosure. It should be noted that the Corporate Governance Code refers to the annual report as containing all relevant information for shareholders to assess the company's performance, business model and strategy.

As far as the application of materiality is concerned, any guidance on materiality would need to be internationally agreed and may require a behavioural shift in the minds of preparers, auditors and regulators. For example, regulators in different jurisdictions may react in different ways to the non disclosure of what shareholders/investors may consider immaterial information.

As an example, within the banking sector regulators may recommend the inclusion of detailed explanations of regulatory models, which may be of limited use to investors/shareholders. Our view is that the needs of specialist interest groups are already served through obligatory filings (for example, detailed explanations of regulatory models are provided through the Pillar 3 document) and/or specific requests for information (e.g. by credit analysts). Any disclosure framework will need to consider the extent to which these separate filings can be made public, and where appropriate, how published reports can be linked and cross-referenced, which would help avoid disclosure overlap.

Effectively applying materiality does not mean that there should be different thresholds of materiality for different components of the financial report as is suggested in the DP. Consideration should also be given to the external environment in which the entity operates to determine what would be material and decision useful information to the user in that context. Ultimately the decision to disclose or not should be driven by whether the additional information

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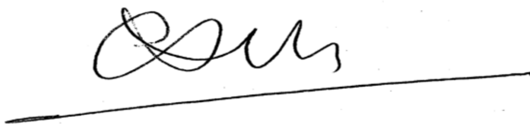
provides decision useful information (consistent with recognition, measurment and presentation principles), and not only to meet the standard requirements of a disclosure checklist. In our view any disclosure framework needs to be underpinned by principles consistent with those used in preparing the primary financial statements with support through application guidance (for example on how materiality is applied in the context of disclosures). This will allow entities to then adopt their disclosures to reflect their business model and operating environment.

The effectiveness of disclosure is a highly topical issue and we believe that any form of guidance issued must be a high quality and capable of withstanding the tests and rigours of time and minimise the risk of future inconsistencies arising. We are willing to work closely with the IASB, the FRC, the FSA and the other regulators in our footprint to achieve this.

Yours sincerely,



Chris Innes-Wilson
Group Chief Accountant

Appendix: Responses to Specific Questions

1. Would a disclosure framework that addresses the four questions identified below help address the problems with disclosures?

- **What information do users need?**
- **Where should disclosures be located?**
- **When should a disclosure be provided?**
- **How should disclosures be communicated?**

We agree that the development of a disclosure framework based on the above questions would be helpful though this should form part of the IASB's existing *Conceptual Framework*. The FRC should then incorporate these principles into a broader framework to govern the wider annual report disclosures. Moreover, a framework should first and foremost focus on identifying the user for whom the general purpose financial report is prepared and an appreciation that the financial report cannot be all things to all users.

Further clarity will also be required around the placement criteria for the annual report in particular the boundaries of where information should be located (i.e. Management Commentary, Corporate Governance and Financial Statements). The concepts of proportionality and materiality need to be effectively addressed when the disclosure framework is developed. Also the concept of 'Fair, Balanced and Understandable' should form the cornerstone of any proposed disclosure framework.

2. Do the disclosure themes set out on page 16 of this paper capture the common types of disclosures that users need?

We agree that the disclosure themes in page 16 of the DP cover the common types of disclosure that a typical user would require, however as mentioned above, the user group needs to be clearly defined for the disclosure themes to yield the desired result.

3. Do you agree with the components of the financial report as identified on page 20? Are there any components that should be identified?

We agree that the components of the financial report on page 20 (Management Commentary, Corporate Governance, Primary Financial Statements and related notes) of the DP are comprehensive and should form the basis of any disclosure framework.

4. Do you believe that the placement criteria identified in the paper are appropriate?

We consider that the placement criteria as identified in the DP, if effectively implemented would provide stakeholders with a better understanding of where to expect information within the financial report and how different types of information link and cross reference throughout the report. However, any such framework needs a clear definition of the boundaries for the placement criteria to ensure comparability and reduce duplication.

Guidance should be provided in the case of information not distinctly falling within a particular category e.g. risk disclosures, areas of significant estimates and judgements, non-adjusting post balance sheet events or unrecognised items which could be shown in either the notes or the management commentary.

5. How should standard setters address the issue of proportionate disclosures?

What is ultimately disclosed or not should be on the basis of what is material to each company's circumstances. A sound understanding of what is material to users would be the most effective manner of determining the extent of relevant disclosure - irrespective of industry sector. We support a principles based approach to standard setting and disclosure and are not in favour of industry specific reporting.

Requirements around proportionate disclosure should be defined within the existing materiality requirements to provide reporting entities with the flexibility for making disclosures based on their facts and circumstances and environment in which they operate. For example, disclosure requirements for banks are based on best practice guidance developed through adherence to the British Bankers' Association Code for Financial Reporting Disclosure as well as proposals by special interest groups such as the Enhanced Disclosures Taskforce.

Standard setters should look to minimise the level of mandatory disclosure requirements and prescribe principles to ensure disclosures are entity-specific and tailored to communicate relevant information only. The tendency under current standards has been to create lengthy disclosure lists, which in addition to encouraging boilerplate text, is not be relevant in all circumstances. Where disclosure requirements arise out of a response to events such as the financial crisis, 'legacy' disclosure requirements such as the 2008 IAS 39 reclassification option may no longer provide relevant information in present circumstances. Disclosure therefore should also consider relevance within the prevailing economic environment. We feel the solution is to encourage well drafted principles, adopted and interpreted consistently on a global basis.

We feel that there is a need to acknowledge behavioural issues when it comes to disclosure as removing disclosure is often a higher hurdle than adding new disclosure statements. There is a general mindset of keeping disclosures especially where challenges by regulators are expected.

One of the key objectives of any disclosure framework should be to achieve entity-specific/proportionate disclosures. One of the ways this could be done is by reapplying the statement in IAS 1, paragraph 31 which states 'An entity need not provide a specific disclosures required by IFRS if the information is not material'. This paragraph could potentially be removed from IAS 1 and be applied to either all standards or be one of the key principles of the disclosure framework.

6. Do you agree with the framework for materiality set out in paper? How could this be improved?

We disagree that there should be a higher level of materiality for the notes compared with the primary financial statements. Furthermore, we are unclear of the purpose behind the ranking of different levels of materiality though we do agree that there is divergence between what is considered material in terms of IFRS and the requirements of the UK Companies Act which needs to be addressed.

Any framework for materiality should be principles based rather than trying to impose arbitrary rules, as this will provide companies with the necessary flexibility to adapt their disclosure.

7. Are there other ways in which disclosures in financial reports could be improved?

An improvement in the disclosures in the financial reports can only be achieved if all relevant stakeholders consider the objectives of financial reporting as mandated by the IASB as serving the needs of shareholders/investors as the primary user group.

Disclosure relevance could be enhanced if entities disclosed how accounting policies have specifically been applied and a discussion of those areas where management has exercised significant judgement in recognition, measurement and presentation decisions. This would be a suitable alternative to providing a list of the entity's accounting policies and would for instance, provide the user with a clear understanding around the use of the fair value option, consolidation decisions based upon de-facto control, and the significant assumptions used in deriving the fair value of assets and liabilities acquired in business combinations. As such, it is our view that existing standard setting practises should be changed in order to achieve a higher quality decision useful set of disclosures.

Additional disclosures should not be seen as the solution to address existing deficiencies in measurement or presentation principles. For instance, on the topic of financial instrument offsetting, additional disclosure appears to have been the solution for fundamental disagreements between the IASB and FASB around recognition and measurement principles.

We would encourage the FRC to consider the role of technology in transforming how corporate reports are communicated, though with each country regulating the form of corporate communications in its jurisdiction, this is perhaps better suited as medium to long term goal.