Association of Accounting Technicians response to IASB Disclosure Initiative – Principles of Disclosure

Association of Accounting Technicians response to IASB's Disclosure Initiative – Principles of Disclosure

1. Introduction

1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the discussion paper, 'Disclosure Initiative – Principles of Disclosure', published on 30 March 2017.

1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of taxes.

1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.

1.4. AAT has focussed on the principles of the proposals and has provided opinion on the practicalities of implementing the measures outlined.

1.5. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by AAT's 4,250 licensed accountants.

2. Executive summary

2.1. **AAT recommends a comprehensive review of IFRS Standards in respect of each Standard's presentation and disclosure requirements**. AAT acknowledges the 'disclosure problem' exists (as referred to throughout the discussion paper) and believes that the main reasons for the disclosure problem are over-reliance on automated accounts production software, a reluctance on the part of the preparer to amend or delete disclosures which are software-driven, and a lack of clarity within the IFRS Standards themselves.

2.2. **AAT supports the development of a set of disclosure objectives which would aim to explain to the preparer why an accounting policy or disclosure is required as a means of 'setting the scene'.** This would serve to help preparers understand what, how and when they need to disclose.

2.3. **AAT believes that materiality issues also contribute to the disclosure problem and notes IASB's current project on the definition of materiality for which an Exposure Draft is due to be issued later in 2017.** Clarifying the definition of materiality may serve to help alleviate the disclosure problem as many reporting entities tend to make excessive disclosures about immaterial aspects of their business.

3. AAT response to the discussion paper

3.1. The following paragraphs outline AAT's response to the proposals outlined in the discussion paper. Only those questions where AAT has a comment to make have been listed.

Question 1: Paragraphs 1.5-1.8 describe the disclosure problem and provide an explanation of its causes.

(a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?
(b) Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

3.2. AAT agrees with the IASB's description of the disclosure problem and its causes. AAT believes that behavioural issues are a key factor in the disclosure problem often accentuated by the preparers' fear of potential repercussions if they do not make certain disclosures, even if they are immaterial. This is particularly the case where such disclosures are driven by automated accounts production software systems. The concept of materiality is closely related to the disclosure problem with the financial statement preparation process being viewed, in a large number of cases, as a compliance exercise, rather than as an opportunity to convey information about the entity as a whole to attract investment opportunities. Preparers often believe that if a disclosure checklist requires disclosure of a certain transaction, event or condition which is inherently immaterial to the financial statements, then that disclosure should go into the financial statements regardless of its immateriality.

3.3. The fundamental problem where disclosures are concerned is 'disclosure overload' in the financial statements, which usually arises because the situations outlined in 3.2 above. AAT's view is that the IASB should review existing IFRSs/IASs in order to develop a comprehensive and concise set of disclosure requirements. This could be achieved by clarifying, at standard-level, why and how disclosures should be made in the financial statements. AAT notes that there is an ongoing project ('The Definition of Material' project) which proposes to refine the definition of 'material' and clarify its application (paragraph 1.16 (b) of the discussion paper). This project, once completed, will be helpful for preparers in identifying those disclosures which should be made in the financial statements due to their materiality and should help to identify disclosures that do not need to be made.

3.4. AAT does not believe that having a separate general disclosure standard would necessarily solve the disclosure problem on the grounds that this may result in over-prescriptive guidance and would result in the objectives of the Disclosure Initiative project not being achieved. AAT suggests that a comprehensive review of the disclosure requirements in each standard should be undertaken by IASB to address the issue. The disclosure requirements of each standard are usually replicated in disclosure checklists. These checklists are in widespread use by entities to ensure that the disclosure requirements in each IFRS/IAS are provided in the financial statements prior to being audited. If the IASB were to undertake a review of the disclosure requirements in each standard, and remove any such disclosure requirements which are disproportionate or redundant, then this will be more effective in tackling the disclosure problem than if a general disclosure standard were to be published.

Question 2: Sections 2-7 discuss specific disclosure issues that have been identified by the Board and provide the Board's preliminary views on how to address these issues.

Are there any other disclosure issues that the Board has not identified in this Discussion Paper that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?

3.5. Financial statements are often prepared using sophisticated accounts production software systems which also allow functionality for electronic filing of the financial statements with various third parties, such as Companies House and HMRC. Certain disclosures require 'tagging' to various taxonomies prior to e-filing and this may be another factor contributing to the disclosure problem. AAT suggest that the IASB considers how the use of technology affects the presentation of financial statements, together with the disclosures made in them.

Question 3: The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance.

The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20-2.22.

(a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not?
(b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why?
(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance?
(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?

If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)-(c)) and give your reasoning.

3.6. AAT agrees that effective communication of information within the financial statements is of fundamental importance. AAT also agrees that the Board should develop principles of effective communication which reporting entities should apply when preparing the financial statements. Such principles would be valuable to entities in assisting them to prepare information to be included in the financial statements in a clear and concise manner.

3.7. AAT has some reservations about the inclusion of effective communication in non-mandatory guidance. Reporting entities have an abundance of material available to them to assist in the financial statement preparation process and it is difficult to see how more non-mandatory guidance would prove beneficial. Application guidance within the Standards themselves may be more effective than additional non-mandatory guidance.

3.8. AAT agrees with the principles outlined in paragraph 2.6 of the discussion paper as such principles underpin high quality financial reporting and actively discourage 'boilerplate' disclosures and 'clutter' within the financial statements. However, AAT believes that the root cause of the disclosure problem may lie within the Standards themselves and, as noted in paragraph 3.4. above, AAT would suggest a comprehensive review of the Standards to identify any superfluous disclosure requirements. AAT also suggests additional application guidance within the standards to help to clarify the requirements.

3.9. The principles of effective communication are considered highly important by users of the financial statements. Indeed, economic decisions and investment decisions are arrived at

from information conveyed in the financial statements. Potential investors should not have to spend a disproportionate amount of time in identifying key pieces of information –if material information is obscured by immaterial information, the decision-making process could be impeded (which the discussion paper considers part of the disclosure problem). AAT suggests that the principles of effective communication should be given prominence in a disclosure standard rather than as non-mandatory guidance. In light of the importance placed on effective communication, it would be easier to overlook non-mandatory guidance than if it was given more prominence within a standard.

3.10. In respect of formatting issues, AAT supports non-mandatory guidance in this area. While formatting is important, AAT believes the disclosure problem should take precedence and the formatting issues may, in turn, become resolved in a majority of cases. Non-mandatory guidance could take the form of illustrative examples of such formats with a prominent caveat that such illustrative examples are only guidance and that reporting entities should tailor such formats to their individual facts and circumstances. There is always a danger that guidance issued by standard-setting bodies in the form of illustrative examples becomes a 'precedent' by preparers, in much the same way that various text is replicated from a Standard in some reporting entities' financial statements. AAT also suggests that if such guidance is developed, then it may be beneficial to include it in the non-mandatory guidance which accompanies a standard.

Question 4: The Board's preliminary views are that a general disclosure standard should:

- **specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows;**
- **describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24;**
- **describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanatory and supplementary information, as referred to in paragraphs 3.26-3.27; and**
- **include the guidance on the content of the notes proposed in paragraphs 7.3-7.7 of the *Conceptual Framework* Exposure Draft, as described in paragraph 3.7.**

In addition, the Board's preliminary views are that:

- **it should not prescribe the meaning of 'present' as presented in the primary financial statements and the meaning of 'disclose' as disclosed in the notes; and**
- **if it uses the terms 'present' and 'disclose' when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either 'in the primary financial statements' or 'in the notes'.**

Do you agree with the Board's preliminary view? Why or why not? If you do not agree what do you suggest instead, and why?

3.11. AAT supports the Board's preliminary view that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows. This term is very widely used and well-understood by users and stakeholders. However, AAT also agrees with the Board's proposal in paragraph 3.17(a) to state that the term 'primary' in the context of the financial statements does not imply that the notes to the financial statements are in any way subordinate or less important to the primary financial statements themselves. It is widely acknowledged that the notes provide valuable information concerning the financial statements and the reporting entity itself.

3.12. AAT welcomes the overall objective of providing additional guidance on the roles of the primary financial statements and the notes. Providing additional guidance will prove to be valuable to preparers of the financial statements and, indeed, the users. Such guidance will help to distinguish between the primary financial statements and the notes.

3.13. AAT is unaware of any issues faced by reporting entities in respect of the lack of meaning of 'present' and 'disclose' and therefore does not see this as an urgent issue that should be addressed by the IASB as part of this discussion paper. However, AAT has no objections

to the IASB being specific where 'disclose' is concerned by specifying the intended location (e.g. 'disclosed on the face of the statement of financial position' or 'disclosed in the notes to the financial statements'). This would provide a practical solution for preparers, although as noted above, AAT does not view this as an urgent issue.

Question 5: The Board's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)-(c).

(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?
(b) Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3-4.4), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)-(c)?

3.14. AAT welcomes principles-based guidance in this area and also acknowledges that cross-referencing is quite prevalent among reporting entities. AAT also agrees with the principle proposed in paragraph 4.9 of the discussion paper and has no objection to the IASB's proposed description of the entity's 'annual report' as noted in paragraph 4.9(a) of the discussion paper. The term 'annual report' is already widely used and AAT does not foresee any interpretational problems in the use of this term.

3.15. AAT shares the same concerns as the IASB in that excessive use of cross-referencing may impede on the usefulness of the financial statements and that some users may view excessive cross-referencing as resulting in the financial statements becoming fragmented. AAT would encourage a statement to be embedded within the principle that aims to advise caution over excessive cross-referencing where such an act would cause the financial statements to be fragmented. For example, cross-references to information outside of the financial statements is acceptable if the information being cross-referenced is available to the users on the same terms as the financial statements.

3.16. In the UK, listed entities are required to include information on directors' remuneration – usually in the form of a directors' remuneration statement to comply with legislation. AAT believes that some entities cross-reference information in the financial statements to a separate directors' remuneration statement which is usually available on the reporting entity's website. Usually directors' remuneration can be included in either the management commentary section of the annual report or within a separate directors' remuneration report.

Question 6: The Board's preliminary view is that a general disclosure standard:

- **should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but**
- **should include requirements about how an entity provides such information as described in paragraphs 4.38(a)-(c).**

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

3.17. AAT supports the Board's preliminary view that a general disclosure standard should not prohibit a reporting entity from including information in its financial statements that it has identified as 'non-IFRS information'. Invariably, reporting entities are required by legislation to include information over and above the disclosure requirements of an IFRS/IAS to comply with company law, such as directors' remuneration or directors' advances, credits and guarantees. AAT is not aware of any difficulties encountered by reporting entities where such legally-required disclosures are concerned and most entities appear to be complying with such disclosure requirements.

3.18. AAT believes that many reporting entities are including information over and above the requirements of IFRS to try and convey certain information to the users, regardless of the fact that such information may be immaterial and would not impact on the economic decision-making process of the users. To alleviate this concern, AAT suggests that any general disclosure standard should also aim to target superfluous disclosure practices which dilute the meaningfulness of the financial statements. AAT supports the inclusion of the requirements at paragraph 4.38(a) to (c) of the discussion paper; however, AAT believes that the inclusion of the term 'material' may be beneficial to avoid 'cluttering' the financial statements with irrelevant disclosures. Conversely, reporting entities should not be prohibited from including non-IFRS information where doing so would be helpful to the users of the financial statements.

Question 7: The Board did not discuss whether any specific information – for example, information that is inconsistent with IFRS Standards – should be required to be identified and described in paragraphs 4.38(a)-(c) or should be prohibited from being included in the financial statements.

Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

3.19. The issue of 'disclosure overload' is a problematic one which has been acknowledged throughout the discussion paper. Some information may be so inconsistent with the IFRS information, or conflict with the requirements of an IFRS, that the financial statements become misleading. In addition, disclosures which conflict with the requirements of an IFRS may impact on their clarity. AAT therefore suggests that reporting entities are prohibited from including any information which would be inconsistent with IFRS Standards or would give rise to a conflict with IFRS Standards.

Question 8: The Board's preliminary views are that it should:

- **clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85-85B of IAS 1:**
  - **the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and**
  - **the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.**
- **develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26-5.28.**

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?

(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

3.20. AAT notes at the foot of question 8(c) that responses to question 8 will be considered as part of the Board's Primary Financial Statements project. AAT is unsure as to why these views require feedback in the Disclosure Initiative – Principle of Disclosure discussion paper when such feedback would ordinarily be expected in the project to which it relates.

3.21. While AAT would support additional clarification regarding the presentation of an EBITDA/EBIT subtotal, AAT notes that IAS 1 at paragraph 85A already acknowledges that:

'When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:

(a)be comprised of line items made up of amounts recognised and measured in accordance with IFRS.'

3.22. AAT is unaware of any reporting entities that have struggled with this requirement and therefore questions whether additional clarification in this respect would add any value to the existing IAS 1 requirement?

3.23. The question as to the use of other terms to describe 'unusual and infrequently occurring items' is one which AAT views as non-urgent. However, AAT notes that UK GAAP refers to such items as 'exceptional items' which encompass unusual and infrequently occurring transactions that are material to the financial statements. AAT would support the issuance of application guidance in this area. Nonetheless, AAT is not currently in a position to offer further comment as IASB have not developed proposals in this area. Once proposals are developed, AAT would welcome the opportunity to provide comment if necessary.

Question 9: The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34.

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

3.24. AAT supports the Board's preliminary view that reporting entities should not be restricted in the performance measures that they disclose in their financial statements (paragraph 5.32 of the discussion paper). In AAT's opinion, all performance measures should be presented consistently and reconciled to financial information and clearly explained. To that end, AAT supports the Board's proposal in paragraph 5.34.

Question 10: The Board's preliminary views are that:

- **a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and**
- **the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):**
  - **the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22-6.24; and**
  - **the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.**

(a) Do you agree with the Board's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16? Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?

(b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or a combination of both)? Why?

3.25. AAT supports the classification of accounting policy disclosures in 'categories' (paragraph 6.12 to 6.14 of the discussion paper). These categories make a clear distinction as to the materiality of accounting policy disclosures which an entity needs to consider and AAT views this grouping approach as helpful.

3.26. Notwithstanding AAT's support of accounting policy categories, AAT discourages a prescriptive approach to the disclosure of accounting policies. Reporting entities should have the flexibility in disclosing entity-specific accounting policies which provide useful information to the users of the financial statements. In any case, emphasis should be made that only the entity's material accounting policies should be disclosed in the financial statements (as is the case in Category 2 (paragraph 6.13 of the discussion paper)).

3.27. With regard to guidance concerning the location of accounting policies, this should not be too prescriptive and reporting entities should have some flexibility afforded to them as to where they consider accounting policies best be located. Some reporting entities have vast accounting policies, spanning several pages and in some cases some of these accounting policies may be superfluous or redundant. Accounts production software systems are often blamed for the production of excessive accounting policies and there may be educational factors to consider where disclosures of accounting policies are concerned. Preparers often view disclosures produced by an automated accounts production software system as being definitive, when in a lot of cases they should be tailored so as to be entity-specific.

3.28. AAT would welcome guidance that clarifies that Category 1 and Category 2 are necessary for an understanding of the financial statements and that those in Category 3 are viewed as unnecessary for the primary users to understand information in the financial statements.

Question 11: The Board's preliminary view is that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes.

Centralised disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements.

Do you agree that the Board should develop centralised disclosure objectives? Why or why not? If you do not agree, what alternatives do you suggest, and why?

3.29. AAT supports the development of centralised disclosure objectives. The current disclosure regime has been developed at Standards-level and has given rise to the issues that are discussed throughout the discussion paper (the 'disclosure problem'). Having centralised disclosure objectives would help to give an underlying basis which would assist reporting entities to better understand the remit of the notes. This will also provide a better link between the IFRS Standards and the disclosure notes.

Question 12: The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised disclosure objectives and therefore used the basis for developing and organising disclosure objectives and requirements in Standards:

- **focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or**
- **focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B).**

(a) Which of these methods do you support, and why?
(b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section.

3.30. At the time of preparing this response, AAT supports Method A as it is likely that this method will probably be the easiest to implement. However, AAT notes that both Methods A and B are in the early stages of development and detailed discussions have not been undertaken by the Board. AAT would welcome the opportunity to comment further on these proposals as they are developed.

Question 13: Do you think that the Board should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?

3.31. As noted in 3.3. above, AAT would welcome a comprehensive review of existing Standards to identify those disclosures which may be redundant and/or result in superfluous disclosures in reporting entities' financial statements. Having a single standard containing all the disclosure requirements may prove initially difficult for reporting entities to apply – although AAT is not aware of any practical difficulties encountered where an IFRS already

devotes disclosure requirements in a particular area (such as IFRS 12 *Disclosure of Interests in Other Entities*).

3.32. Having a single Standard outlining disclosure objectives and requirements may prove cumbersome and would likely need to be updated on a regular basis. On this basis, AAT suggests keeping all disclosure objectives and requirements within each Standard. This would enable preparers to consult the relevant standard to establish the disclosure objectives and requirements.

Question 14: This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards.

(a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?
(b) Do you think that the development of such an approach would encourage more effective disclosures?
(c) Do you think the Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not?

3.33. AAT would support an approach adopted by the NZASB. The inclusion of disclosure objectives would be beneficial to preparers in understanding why certain disclosures are required and would possibly serve to reduce the number of reporting entities that adopt a 'tick-box' style approach to producing disclosure notes. However, there does appear to be some uncertainty as to the levels of 'summary information' and 'additional information' and AAT would suggest clarification in this area if IASB were to adopt such an approach in drafting disclosure objectives and requirements.

3.34. IFRS Standards are inherently principles-based and AAT supports NZASB's greater emphasis for an entity to exercise judgement when deciding how and what to disclose to meet the disclosure objectives and less prescriptive wording in disclosure requirements. This may alleviate the problem of 'boiler plating'. Additional guidance in this area may assist reporting entities.

Question 15: Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4).

Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives.

Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.

3.35. AAT does not believe the root of the disclosure problem is in the drafting of the Standards. In many areas, IFRS are clear as to what should be disclosed. In many cases, preparers are using automated accounts production software systems that generate various disclosures (such as accounting policies for financial instruments and revenue recognition). Such software-driven policies and disclosures are usually very generic in nature and require user-input to tailor them to be entity-specific; this is an issue which many reporting entities find difficult to do. Certainly where accounting policies are concerned, preparers are often nervous about deleting or amending policies generated by automated accounts production software systems on the basis that they may be wrong.

3.36. The application of judgement is important where IFRS Standards are concerned and AAT would be concerned about entities observing specific disclosure requirements as we

suspect this may not resolve the issue. The financial statement preparation process would still be viewed as a compliance exercise if reporting entities were to observe specific disclosure requirements.

3.37. As noted in 3.3. above, AAT would welcome a comprehensive review of the presentation and disclosure aspects of the Standards with a view to removing unnecessary or redundant disclosure requirements. At the same time, IASB could include specific disclosure objectives that will help preparers to apply judgement. If preparers are presented with comprehensive disclosure objectives, explaining what the disclosure requirements set out to achieve and how to achieve a specific objective, this could result in more meaningful disclosures being made in reporting entities' financial statements. AAT does not view the problem as emanating from the drafting process; the problem appears to be that preparers are often unaware of why a standard requires a certain level of disclosure and how users' would benefit from such disclosures, particularly where entity-specific disclosures are concerned.

3.38. The issue of materiality is also one of the main causes of the disclosure problem. Preparers are often nervous about removing software-generated disclosures in case auditors question the non-disclosure of an immaterial transaction, event or condition. This is primarily down to educational factors and the AAT would support non-mandatory guidance in this area to help preparers understand that anything immaterial or irrelevant to the reporting entity need not be disclosed and notes IASB's current project on materiality.

4. About AAT

4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

E-mail: consultation@aat.org.uk Telephone: 020 7397 3088

Association of Accounting Technicians
140 Aldersgate Street
London
EC1A 4HY