Reduce the financial-statement disclosures

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by Filbert Tsai - March 14, 2016

First of two parts

Financial statements in the Philippines for companies reporting under Philippine Financial Reporting Standards (PFRS), or its little brother, PFRS for small- and medium-sized enterprises (SMEs) are notorious for the horrendous disclosures attached to the financial statements.

Looking through the financial statements of most Philippine companies, it can be observed that torrential amount of details are disclosed in the financial statements just to comply with the requirements of PFRS or PFRS for SMEs. Further, the Securities and Exchange Commission (SEC), through its various memorandums and circulars, further upped the game by introducing additional disclosure requirements along the way. A key question, probably, to the profession and to the regulators is whether all these still make sense.

Developed countries usually adopt a reduced disclosure framework (regime) for companies that qualify for the scheme. While different countries have different requirements to qualify, it is common that the qualifying criteria is that the entity be a member or subsidiary of a group that prepares publicly available consolidated financial statements or, sometimes, the criteria is based on a monetary threshold. Most of the financial statements in the Philippines are publicly available in the SEC, while for listed companies they are publicly available on their web sites.

Looking at the overarching principles in preparing financial statement, the general requirement under Philippine Accounting Standards 1 on presentation of financial statement requires only material information to be presented in the financial statements (paragraph 31). While the consideration of materiality is highly controversial, since there are no bright line threshold as to materiality, the Conceptual Framework for Financial Reporting states that:

"Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words,
materiality is an entity-specific aspect of relevance based on the nature and magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report."

While the International Accounting Standards Board is currently addressing disclosure effectiveness through its disclosure initiative, changes to be made in addressing the materiality concern would most likely be in the form of additional guidance rather than a waterline.

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