Reduce the financial-statement disclosures

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Conclusion

The thick financial statements submitted each year by companies to the Securities and Exchange Commission (SEC) is a nightmare to look at. Five to 10 pages of accounting updates, which are almost similar across all companies, and a few pages added to cover the SEC requirements on disclosing related party transactions and applicable accounting standards—do they really matter? Most of the private companies in the Philippines are filing financial statements for reportorial purposes only, and adding unnecessary disclosure simply heighten the burden and increases the risks that disclosures are not accurate,
for the reason that these information are not usually pulled until year-end just to disclose for financial reporting purposes.

The list of standards issued, but not yet effective, is probably the single largest section of the financial statements showing a list of future accounting standards (until 2019) and a summary of each new accounting standard. I am really not sure of the value that this section adds to a private company's financial statement other than a burden to ensure that all not applicable future accounting standards are well negated in each section.

Then, probably, cash-flow statement is also another gem in the financial statements that simply results to difficulty in trying to tie all those figures through the specific notes of the financial statements. For most private companies, the cash-flow statement is simply a burden rather than a useful component for its financial analyses.

Last, the most hated section for nonfinancial institutions is the requirement to disclose lengthy financial risk disclosures in the financial statement for Philippine Financial Reporting Standards (PFRS) reporters. There is a dreadful load of disclosure requirements on credit, liquidity and market risks and fair value disclosures that simply doesn't make any sense for companies with simple financial instruments and even plain vanilla hedges.

While the above sections are not yet all of the disclosures that are overwhelming, albeit, burdensome, we have to consider the value-added of these disclosures for each company. Beginning 2016 the Board of Accountancy reinforced the SEC's reminder that auditors should not prepare financial statements. Rather, the task of preparing financial statements shall be the role of Certified Public Accountants in commerce and industry. While this is a good move and in line with ethical requirement, the key barrier to this is the cost/benefit challenge for private companies to assign a person full-time doing reportorial disclosure requirements.

The regulators should help the industry practitioners on making their life a little bit better by taking off unnecessary reportorial burdens if the goal is to ensure public compliance of good financial reporting. The increased burden to private companies to complete the financial statements and to do a thorough compliance with all the disclosure requirements under PFRS, or PFRS for Small and medium-sized enterprise might simply be not worth the benefit (if there's any).

The United Kingdom, Australia and New Zealand are the forerunners of the reduced disclosure framework for accounting disclosures. There are a lot of inputs the Philippines can get by conducting a detailed study of how reduced disclosure framework had been working for the past couple of years in other countries. Probably, the most important thing here is that regulators try to identify and stratify the market and adopt necessary disclosure reductions as applicable to each market segment.

Adopting a reduced disclosure framework can really help free up time and money wasted in the loads of pages included in the financial statements for disclosure purposes without any real value-added.

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