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Disclosures

Regulator says quality not quantity is key

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ESMA states key principles for improving disclosures in financial statements

Highlights

- ESMA calls for continuous effort from all parties on improving disclosures
- Five key principles – Focus on relevant information presented in a clear and accessible way
- Next steps – Companies' efforts will help drive best practice; regulators will monitor progress

The European regulator, ESMA, has issued a statement encouraging companies to improve the quality of financial statement disclosures.

ESMA acknowledges different viewpoints of preparers and users on perceived disclosure overload, but remains concerned that too often companies provide disclosures that lack clarity, are not sufficiently relevant, or are just boilerplate.

The regulator notes that the quality and quantity of disclosures in financial statements continue to cause concern and that, despite national initiatives, relatively few companies have responded.

"We support continuous improvement in the quality of financial statement disclosures. ESMA's expression of the support of European regulators will reassure preparers who want to respond by delivering concise and clear reporting."

Call for continuous effort on improving disclosures

While ESMA commends initiatives by national regulators and standard setters – not least the IASB's disclosure initiative – it continues to highlight the need for further improvement in the quality of disclosures.

It also encourages early application of elements of the Amendments to IAS 1 *Presentation of Financial Statements*, as they provide useful clarifications.

ESMA emphasises that improving disclosures is a continuous process and urges all parties involved – including preparers, auditors and regulators – to play an active role.

Five key principles

With this in mind, ESMA has developed five key disclosure principles that companies are encouraged to consider when deciding what to disclose in their financial statements.

– ***Tell the company's own story*** by focusing on company-specific disclosures and avoiding boilerplate language.

– ***Provide relevant information in an easily accessible way***, helping users to understand the company's financial performance and position.

– ***Think about materiality*** – applying the IFRS materiality principle and focusing on relevant information.

– ***Promote readability*** by presenting financial statement information in a clear and concise way, using cross-references and ensuring that material information is not obscured by less relevant information.

– ***Provide consistent information*** within annual reports – ensuring that disclosures in the financial statements are aligned with information presented elsewhere in the report.

Next steps

Companies should make efforts to continuously improve disclosures – such efforts are likely to be welcomed by investors. This experimentation will help drive best practice, and will inform the direction of the IASB's disclosure initiative and the application of IFRS more generally.

European national regulators will monitor and discuss companies' progress in improving the quality of disclosures, and reflect on their enforcement practices.

Visit our IFRS – Disclosures hot topics page for our latest insights on making financial statement disclosures clear and relevant.

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