



THE AUTHORITY OF AUDIT, ACCOUNTING, PROPERTY VALUATION AND  
INSOLVENCY MANAGEMENT  
UNDER THE MINISTRY OF FINANCE OF THE REPUBLIC OF LITHUANIA

## JOINT OUTREACH EVENT

### IASB DISCUSSION PAPER DISCLOSURE INITIATIVE - PRINCIPLES OF DISCLOSURE

## SUMMARY REPORT

VILNIUS

5 SEPTEMBER 2017

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*This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event and has been jointly approved for publication by representatives of the Lithuanian Ministry of Finance and the Lithuanian Authority of Audit, Accounting, Property Valuation and Insolvency Management, who attended the outreach event.*

## Introduction

EFRAG together with the Lithuanian Ministry of Finance and the Lithuanian Authority of Audit, Accounting, Property Valuation and Insolvency Management organised an outreach event in Lithuania on 5 September 2017 covering the IASB's Discussion Paper DP/2017/1 *Disclosure Initiative – Principles of Disclosure* (the 'IASB DP'). This report has been prepared for the convenience of European constituents. The joint outreach event was one of a series organised across Europe following the publication of the IASB DP. The purpose of the outreach event was to:

- stimulate debate in Europe;
- obtain input from constituents, in particular from those that did not intend to submit a comment letter to EFRAG or the IASB, and to understand their main concerns; and
- learn whether the tentative views as set out in EFRAG's draft comment letter were shared by European constituents.

Daiva Brasiūnaitė (Vice-Minister of the Ministry of Finance) and Audrius Linartas (Director of the Authority of Audit, Accounting, Property Valuation and Insolvency Management) opened the outreach event and welcomed the speakers and participants.

Darrel Scott (IASB member) and Mariela Isern (Senior Technical Manager at the IFRS Foundation) introduced the key elements of the IASB DP. Subsequently, Andrew Watchman (Chairman of EFRAG TEG) summarised EFRAG's tentative views on the IASB DP.

Thereafter Airi Aleliūnaitė (Head of Methodology and Analysis Department of the Authority of Audit, Accounting, Property Valuation and Insolvency Management) gave the view on the main disclosure problems in Lithuania with regards to their own disclosure standard (BAS No. 6). All the disclosures of BAS No. 6 is contained in a single disclosure standard. This was followed by a round table panel discussion led by Audrius Linartas.

The presentation slides and key elements mentioned can be found on EFRAG's website ([here](#)).

## Summary of observations

Participants at the event expressed the following views:

- A significant part of the 'disclosure problem' is the disclosure of too much irrelevant information and information that is not useful while in some cases significant items are missing from the disclosures provided in the financial statements.
- Preparers are often using a checklist approach and not exercising judgment when compiling financial statements.
- There is a general lack of consensus among preparers and auditors on materiality.
- Disclosures scattered over several standards makes them difficult to read and understand.
- More educational and implementation guidance is needed to assist preparers in exercising their judgment and applying materiality.
- General support for cross-referencing but further work is needed to develop safeguards that would ensure the integrity of information.

## Discussion on the IASB DP

### Main comments received

*“The disclosure of irrelevant and not useful information”*

### Main comments received

*“Preparers using a checklist approach and not exercising judgment”*

*“Lack of consensus among preparers and auditors on materiality”*

### Key topic 1 - What is the disclosure problem?

Participants identified the disclosure of information that is irrelevant and not useful as a significant part of the ‘disclosure problem’. Entities often present redundant and immaterial information while in some cases significant items are missing from the disclosures provided in the financial statements. Currently, too few entities step back and observe if the disclosed information as whole makes sense.

### Key topic 2 - What are the main root causes?

Participants identified that the main origins of the problem as:

- preparers using a checklist approach rather than materiality to apply disclosure requirements in IFRS Standards;
- preparers that are not sufficiently aware of the role they play in exercising judgement when deciding what information to disclose; and
- the large number of disclosure requirements that are spread over several IFRS Standards make them difficult to read and understand.

Some participants expressed the view that the large number of disclosure requirements pushes preparers towards a compliance approach rather than applying materiality/judgement when preparing disclosures.

Some participants noted that there is often a lack of consensus among auditors and preparers on materiality. The fact that materiality is not only a quantitative but also qualitative in nature is not well understood and further contributes to the disclosure problem.

## Main comments received

*“Provide more educational and implementation guidance to assist preparers in exercising their judgment and applying materiality”*

## Key topic 3 - What should the IASB focus on?

The IASB could issue more guidance to address the behavioral aspects of the disclosure problem. This can be in the form of educational or implementation guidance to assist preparers with their role to ensure they exercise judgment when preparing disclosures and they understand practically how to apply materiality.

One participant noted that entities typically approach disclosures considering only what information can the preparers provide without reflecting on what may be the needs for information of external parties.

There was some support from participants in having one general disclosure standard containing all disclosure requirements to make it easier for preparers to read and understand. This would improve the accessibility of disclosure requirements.

Participants noted that in order for the disclosure initiative to be successful there needs to be cooperation between senior management of the entity, auditors, users and regulators.

## Main comments received

*“Supports cross-referencing but further work needed to ensure the integrity of information”*

## Other matters

Participants expressed the view that the disclosure requirements are clearly written and understandable. However, one participant noted that the translation of IFRS Standards can cause some confusion due to the difference in meaning of specific words in another language.

Participants generally agreed that the use of cross-references can be useful to avoid unnecessary duplication of information. However, further work is needed to:

- assess the audit implications of the proposed guidance; and
- develop safeguards to ensure stability of the information over time and the integrity of the standalone financial statements.

## Closing remarks

Audrius Linartas thanked the speakers and participants and closed the event.