The Quoted
Companies Alliance

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Technical Director
International Auditing and Assurance Standards Board
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Dear Sirs,

IAASB – The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The QCA is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The QCA Financial Reporting Committee has examined your proposals and advised on this response. A list of committee members is at Appendix A.

RESPONSE

We welcome the opportunity to respond to this discussion paper. We have only responded to the question where we feel we have a significant contribution to make.

We recognise the trend noted in the discussion paper for Annual Reports to increase in length as financial reporting has grown more complex. As a group we are concerned about this trend, fearing that as Annual Reports have grown more complex they have, at the same time, become less useful as a document for assessing managements' stewardship of the business. We believe the IAASB, in conjunction with IASB and others, has an important contribution to make in helping to address this issue.

RESPONSE TO CONSULTATION QUESTIONS

Question P2 Have you included a disclosure in your financial statements to comply with a specific disclosure requirement, even though you believed the disclosure was immaterial? What factors led you to this decision? What practical difficulties exist when deciding to omit a disclosure that you consider to be immaterial?

We agree with the factors set out in the discussion paper concerning the reasons for including immaterial disclosures and, in particular, a desire not to want to omit required disclosures and reluctance to change approach and content from the prior year.

We note that it is often difficult to omit disclosures on the grounds of materiality, particularly if they were included in the prior year, due to the differing interpretations of the requirements by preparers, auditors and regulators. As you highlight, some take the view that the concept of materiality can be applied on a disclosure by disclosure basis; others take the view that it is applied on a standard by standard basis, such that if, for example, share based payments are material then all of the disclosures required by IFRS 2 should be included regardless of their individual materiality; whilst others take the view that by omitting a required disclosure a user is unable to tell whether that was due to the valid exercise of judgment, or an omission due to fraud or error.

Giving these differing views we would urge the IAASB to clarify the position so that auditors can take decisions on how to respond to situations where disclosures have been omitted by preparers on materiality grounds. Clear guidance on this topic would be helpful.

We note that IAS 1 paragraph 31 states that "[a]n entity need not provide a specific disclosure required by IFRS if the information is not material" and we would welcome this being repeated within the scope of each accounting standard in order to focus attention on the issue of the materiality of disclosure. We would ask IAASB to support such approach and to raise the issue with the IASB.

If you would like to discuss this issue further, we would be happy to attend a meeting.

Yours faithfully,

Tim Ward
Chief Executive

APPENDIX A

THE QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)	-	Mazars LLP
Anthony Appleton/Nicole Kissun	-	PKF LLP
Peter Chidgey	-	BDO LLP
Sarah Cox	-	Ernst & Young LLP
Ian Davies	-	Victoria plc
Jack Easton	-	UHY Hacker Young
Jonathan Ford	-	PricewaterhouseCoopers LLP
David Gray	-	DHG Management
Kern Roberts	-	Smith & Williamson
Chris Smith	-	Grant Thornton LLP
Ian Smith	-	Deloitte LLP
Matthew Stallabrass*	-	Crowe Clark Whitehill LLP
Paul Watts/Bill Farren	-	Baker Tilly
Nick Winters/James Lole	-	RSM Tenon Group PLC
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

*Main Author

APPENDIX B

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The QCA is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies;
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of European**Issuers**, which represents quoted companies in fourteen European countries.

QCA's Aims and Objectives

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
  - corporation tax payable of £560 million per annum
  - income tax paid of £3 billion per annum
  - social security paid (employers' NIC) of £3 billion per annum
  - employees' national insurance contribution paid of £2 billion per annum

The tax figures <u>exclude</u> business rates, VAT and other indirect taxes.

For more information contact:
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The QCA Financial Reporting Committee's Corporate Reporting Charter

The Quoted Companies Alliance is committed to working with boards, investors, regulators and standard-setters to promoting high quality corporate reporting by quoted companies, especially smaller quoted companies.
We will encourage the boards of quoted companies to be aware of the importance of high quality reporting in order that the market can have confidence in their businesses and in the information provided by companies generally. In order to undertake our work effectively, we will work with investors to better understand their information needs. We will also encourage standard-setters, regulators and others to set standards and other requirements that meet the genuine needs of investors in a practical way.

We seek to foster a culture of continuous improvement in corporate reporting.
We will encourage companies to keep their corporate reporting under regular review and to seek ways of responding to changing market needs. Information provided should be understandable, avoid unnecessary complexity, be presented in a timely fashion and in a format that makes use of modern technology where appropriate. We will similarly encourage regulators and standard-setters to remain responsive to marketplace changes and to provide information to preparers on good practice and on reporting issues which companies generally need to address. Standard-setters should also take a strategic rather than a piecemeal approach to their work and should periodically seek to eliminate requirements which have not been found to provide useful information.

We believe the concept of stewardship lies at the heart of good corporate reporting.
Directors are responsible to the shareholders for the long-term success of their businesses and this will have a bearing both on what they are expected to report on and the most suitable method of measurement in financial statements. It is likely to have implications, for example, for the circumstances in which fair values are used and for what is considered to be the most appropriate means of measuring fair value in particular situations.

Corporate reporting requirements should be subject to robust cost-benefit tests.
Standard-setters need to carefully assess the costs compared to the benefits of introducing requirements and to avoid unintended consequences wherever possible. To do this, they need to be conscious of the risks of a 'one-size-fits-all' approach since quoted companies encompass both global companies with a market valuation of tens of billions of pounds and smaller quoted companies with one of a relatively few million pounds. Moreover, there should be a clear and public consensus between boards, investors, standard-setters, regulators and auditors on how materiality is to be applied in practice by companies when preparing their financial statements. A proportionate approach to corporate reporting that focuses on significant disclosures and avoids clutter in the financial statements with immaterial disclosures will both improve the quality of corporate reporting and reduce the costs of providing relevant information.

We press for accounting standards which properly reflect economic reality when implemented.
Standards when applied, as well as when written, should focus on principles and not rules, enabling appropriate judgement to be exercised, and in their drafting should take account of practical concerns raised when they are being prepared. In measurement terms, a theoretically optimum solution may turn out to be sub-optimal if, for example, the assumptions of active markets are not met in practice. A mission to reflect economic reality also calls for post-implementation reviews of issues arising. Furthermore, investors may well wish to distinguish between those profits that have between realised in cash and those that have not. Moreover, how best to reflect economic reality may be impacted by the time horizon over which performance is being measured. Further work on what is meant by, and how best to capture, economic reality in financial statements would be helpful. There should be a pre-eminent emphasis on economic reality when standard-setters agree on convergence programmes.

Standard-setters should be in close touch with their marketplace.
In a fast-changing modern market economy, if standards are to reflect economic reality and to be practical, the standard-setters need to be fully in touch with their marketplace. Standard-setters as a team should have substantial current or recent practical experience of operating in the marketplace as a user, preparer or adviser. They should also be drawn from a broad range of backgrounds, including those related to smaller quoted companies as well as to global corporations.

We emphasise the importance of good narrative reporting as an integral part of corporate reporting. Whilst the focus on narrative reporting is increasing, it has traditionally tended to be the 'Cinderella' of the corporate reporting model. To enable the development of a business to be seen in its proper context, it is essential that high quality information be provided on its strategy, its key risks and how they are being managed, the KPIs used to manage the business, current performance and future prospects, and its corporate governance.