

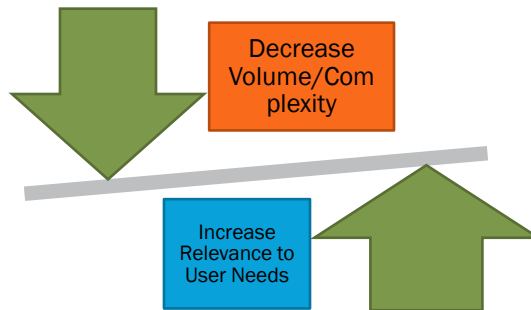
A FRAMEWORK FOR FINANCIAL REPORTING DISCLOSURES – WHAT ARE WE MISSING?

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THE CHALLENGE OF DISCLOSURE

People are calling for:



THE POSSIBLE WAY FORWARD

Step 1: Decide what you are trying to say

Step 2: Synthesize, by objective, the disclosures required

A FRAMEWORK FOR FINANCIAL REPORTING DISCLOSURES – WHAT ARE WE MISSING?

The Contentions - Gaps in the Framework

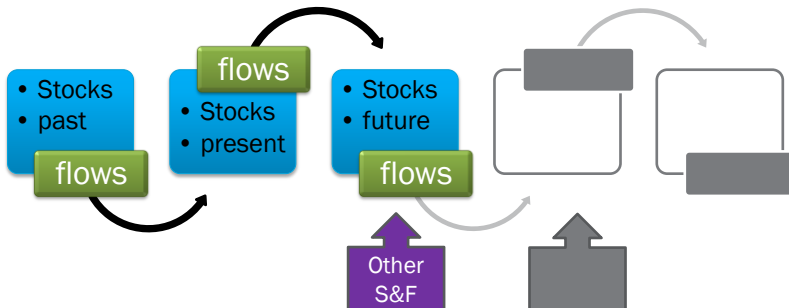
1. The CF does not identify the generic characteristics of an entity that need to be known by users for economic decision-making purposes
2. Consequently, the CF lacks principles powerful enough to drive decisions lower in the Framework, especially about disclosure and presentation (D&P) requirements

A FRAMEWORK FOR FINANCIAL REPORTING DISCLOSURES – WHAT ARE WE MISSING?

The Contentions - Gaps in the Framework (contd)

3. The phrase “Amount, timing and uncertainty of cash flows”, used to gain focus when determining disclosures, is not articulated with economic decision-making. What should we derive from such information?
4. D&P should be objectives driven, answering the question “what are we trying to tell users”.

CHARACTERISTICS OF AN ENTITY RELEVANT TO ECONOMIC DECISION MAKING?

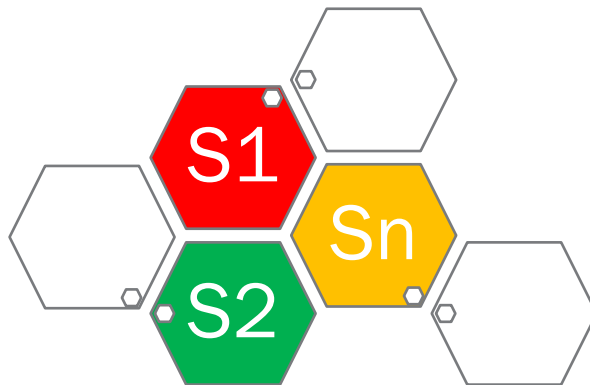


STOCKS

Possible definition:

“The accumulated positions, attributes or standings of an entity, at any one time, knowledge of which could impact the resource allocations made by users at that time.”

HOW MANY STOCKS?



STOCKS

Contention: Only a limited number of “stocks” are pertinent to economic decisions of users

FLOWS

Flows are simply the changes in stocks

FLows: WHAT ARE EXPECTATIONS ABOUT THE AMOUNTS, TIMINGS AND UNCERTAINTIES OF STOCKS AND FLOWS?



AMOUNTS, TIMINGS AND UNCERTAINTIES (ATU)

Contention:

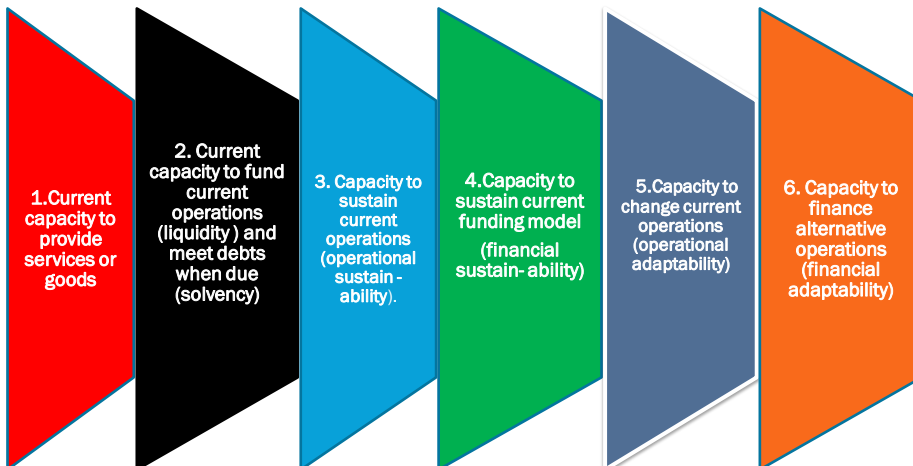
A-T-U of stocks and flows – critical for assessment of ultimate cash flows

This is not to deny cash flows, but rather to add specificity to their source and meaning.

THE QUESTION

So what are the stocks users need to know about , for which flows explain performance?

STOCKS



EXAMPLE OF PURPOSE DRIVEN DISCLOSURES

Let us think about a utility that provides water to the public (desalinated water acquired from another operator and naturally harvested water) and focus only on the stocks relevant to the entity at year end.

How many standards currently cover the question “what assets do we have at year end and how capable are we of providing water” ?

EXAMPLE CONTINUED

The answer: at least 9 major standards (ignoring industry standards):

- AASB 101 – Presentation of Financial Statements;
- AASB 102 –inventories;
- AASB 107 cash flow statements (for balance of cash and cash equivalents – working capital);
- AASB 116 –property plant and equivalent;
- AASB 117 – leases;
- AASB 131 Interests in joint ventures (for jointly controlled assets);
- AASB 136 – Impairment of assets (for balances of);
- AASB 138 - intangible assets;
- AASB 8 – Operating Segments (segment assets)

EXAMPLE CONTINUED

Those standards usually require information about the assets in question, classified by nature or class – in the midst of requirements dealing with recognition, measurement etc. and alongside many disclosures aimed at flows in operating capacity (eg reconciliations of PPE and Intangibles from opening to closing balances).

None of the disclosures directly addresses the entity's operating capacity to provide goods or services at balance date and how it has varied over the period.

A CONCEPTUAL FRAMEWORK SHOULD....

Discern the economics facing entities

Ascertain Users' Needs

Provide Accounting Responses

What are the generic stocks and flows that characterise all entities?

What information do users need about those stocks and flows?

How do we supply the information users need?

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