

Executive Summary

Over the last two or three years, a broad consensus of support seems to have emerged for “principles based standards”. However, there is a range of different interpretations as to what this term really means. There are also major and varying challenges faced in different jurisdictions by the implementation of principles based standards.

At the same time, there have been increasing complaints from preparers and users of financial statements about the length and complexity of those financial statements. Yet many users have claimed that some of the most important information just isn't there, or isn't easily accessible or understandable.

The Global Accounting Alliance (GAA) undertook this interview based thought leadership project to consider these two major topical issues in financial reporting. Its objective was to ascertain views from a broad cross-section of stakeholders in the international arena on the barriers to the practical application of a more principles based accounting regime, and how the current complexity and detail in listed company financial statements could be reduced, so as to focus on better communication with financial statement users.

As a result of the interviews undertaken between March and June 2008, the GAA proposes that a number of questions be considered by the key stakeholders in financial reporting, such that some agreed recommendations might emerge. The GAA is intending to facilitate a series of events internationally where these debates can take place. These questions are as follows:

1. Should an agreed international framework for accounting standards be adopted with a clear hierarchy comprising (i) a conceptual framework; (ii) principles based standards; and (iii) limited authoritative guidance?
2. Should guidance be provided for preparers and auditors on the exercise of judgement in the application of principles based standards and on the documentation of reasons for the judgements made?
3. Should regulators be encouraged to accept a reasonable degree of variation in accounting treatments and to take a more effective, outcome oriented approach to regulation?
4. Should a single definitive set of general purpose financial statements be retained?
5. Should standard setters be encouraged to drop requirements considered redundant?
6. How can company boards be encouraged to provide better quality communication?
7. Should an international framework for high level summary financial statements be developed in order to provide information suitable for retail and less sophisticated investors?
8. Should general purpose financial statements be developed and published in XBRL format to allow users to drill down to whatever level of detail is required?
9. Should company communication be improved through the use of clearer language, less jargon and coded language, and a focus on clarity and transparency?
10. How has the recent financial crisis affected the debate on these issues?