1949 - 2023

"Disclosure Overload" Issues in the Financial Statements

Authors
CA. (Dr.) Anand J Banka
CA. (Dr.) Sushma Vishnani

Bombay Chartered Accountants' Society

Published by **CA Chirag Doshi, President**
for Bombay Chartered Accountants' Society (***ISO 9001:2015 Certified***),
7, Jolly Bhavan No. 2, BCAS Chowk, Ground Floor, New Marine Lines, Mumbai-400 020.
T : +91 22 6137 7600 • **E :** bca@bcasonline.org • **W :** www.bcasonline.org
E-Journal : www.bcajonline.org
E-Learning : https://bcasonline.courseplay.co/

Printed by
Finesse Graphics & Prints Pvt. Ltd.
Tel.: +91 22 4036 4600

Dedicated to the

Selfless Volunteers

of Bombay Chartered Accountants' Society

who hold the flag high

who strive in pursuit of knowledge

and who live by core values.

About BCAS

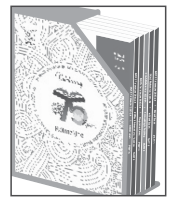
- The Bombay Chartered Accountants' Society founded in 1949 is one of the largest Independent Voluntary body of CAs in India with more than 8500 members. BCAS is a principle-centered and learning-oriented organisation to promote quality service and excellence in the profession of Chartered Accountancy and is proactive to change.
- The organisation has been successful in disseminating 5,00,000 + education hours through various educational activities such as seminars, workshops, residential refresher courses, study circles, lecture meetings, distant learning programs on Various Subjects and pioneered the residential refresher courses.
- BCAS publishes various books including its monthly BCA Journal. It has a track record of publishing the BCAJ for over 50 years and also publishes Referencer along with an easily readable e-book which is an indispensable tool for practicing professionals as well as those in the industry.
- BCAS is a strong community of experienced and dedicated volunteers, who are the strong pillars in disseminating knowledge to members, build skills and networks amongst them and encourage them to adhere to highest ethical standards and professional integrity.
- BCAS Foundation: The BCAS Foundation was formed with the principal agenda to apply its income and the corpus to various public charitable purposes such as relief to poor, education, medical relief, rural development and other object of general public utility.

1949 - 2023

Thirst for knowledge ends here

JOURNAL
Monthly dose of analysis and updates

REFERENCER
A Tool For Every Professional



BCAS PUBLICATIONS

EVENTS
Learn from the experienced peers

E-LEARNING
Unable to reach the event venue, watch here

Connect With Bcas Global

Foreword

The Bombay Chartered Accountants' Society, as a think tank, is privileged to present this significant research paper addressing the pervasive challenge of disclosure overload in financial statements prepared under the Indian Accounting Standards (Ind AS) and the Companies Act, 2013. Authored by esteemed professionals, CA. (Dr.) Anand J Banka and CA. (Dr.) Sushma Vishnani, this research stands as a comprehensive exploration of the issue, integrating both analytical insights and empirical findings obtained through survey-based research.

In today's dynamic regulatory environment, the authors illuminate the complexities arising from information inundation within financial reporting. Through the inclusion of survey-based data collected from practitioners, regulators, and financial statement users, this research captures nuanced perspectives on the challenges posed by excessive disclosures. The empirical evidence serves as a critical foundation for understanding the practical implications of disclosure overload on decision-making processes and the overall effectiveness of financial communication.

This research paper goes beyond the mere identification of challenges; it represents the authors' dedicated commitment to proposing tangible solutions. Drawing from empirical evidence, the recommendations presented herein offer practical strategies aimed at achieving equilibrium between regulatory mandates and the imperative for transparent, concise, and pertinent financial disclosures.

The Bombay Chartered Accountants' Society recognizes the invaluable contribution of CA. (Dr.) Anand J Banka and CA. (Dr.) Sushma Vishnani, whose dedication to advancing the accounting profession is evident in this meticulously crafted research. By amalgamating analytical insights with survey-based research, the authors have provided a robust platform for dialogue and action, aiming to drive improvements in the quality and usability of financial disclosures.

This research paper is a testament to our commitment to fostering scholarly endeavours that augment knowledge and elevate professional practices. It is our fervent hope that this research will serve as a catalyst for meaningful discourse and concerted efforts to refine the disclosure framework, ultimately benefiting financial reporting in India.

Warm regards,

Chirag Doshi
President

Raman Jokhakar
Leader - Research and Studies Initiatives

Bombay Chartered Accountants' Society
(2023-24)

Index

1. Introduction

While the effects of globalization and demand for comparability of financial statements have made countries move towards a global set of accounting standards, IFRS usually requires companies to publish more extensive disclosure information than under local GAAP (Leuz & Verrecchia, 2000). The number of pages in the annual report on account of detailed disclosures has significantly increased, impacting the relevance negatively. The value relevance of disclosures has been an area of interest for empirical studies. Recent investigations by standard setters (e.g., FASB, 2012; IASB, 2013, 2017a; AASB, 2014) and regulators (e.g., ESMA, 2011, EFRAG, 2012, FRC, 2012) have concluded that a disclosure overload problem exists and recommended that required disclosures in standards be reduced and streamlined (Saha et al., 2019). In many countries, the movement to reduce required disclosures has arisen, potentially due to the widespread adoption of International Financial Reporting Standards (IFRS).

While framing Ind AS, ICAI has tried to have minimal deviations from IFRS unless necessary because of India's economic conditions, prevalent practices and regulatory structure. Thus, the disclosure overload problem identified by international standard setters applies to Indian contexts, too, given the high-level convergence of Ind ASs to IFRSs. Further, Indian companies are required to prepare their financial statements as per Schedule III of the Companies Act, 2013 (hereinafter referred to as 'the Act') and hence, are required to comply with disclosure requirements in Division II of the Schedule III of the Act. It includes additional disclosures over and above the Ind AS disclosure requirements, which adds to the disclosure overload problem.

It is a common concern that financial statements are increasingly perceived as burdensome to prepare and that there are concerns about how well they meet the needs of their primary users (IASB, DP/2017/1). In response to these concerns, the International Accounting Standards Board (IASB) identified three main concerns about the information disclosed in financial statements, as below –

a. Not enough 'relevant' information - Information is relevant if it is capable of making a difference in the decisions made by the primary users of financial statements.

b. Ir'relevant' information – such information clutters the financial statements so that relevant information might be overlooked or hard to find.

c. Ineffective communication of the information provided – If it is communicated ineffectively, the financial statements are hard to understand and time-consuming to analyze.

While the IASB is working on developing disclosure principles, it has already amended certain Standards like IAS 1 Presentation of Financial Statements.

Objective of Study

To understand the ‘disclosure overload’ problem from India’s perspective, this research paper probes the issue through a survey conducted on financial reporting disclosures seeking the views of individuals who prepare/audit financial statements or analyze/ invest in companies by relying upon the financial statements and other stakeholders on disclosure issues. Survey method of conducting such a study is advisable since the issue being probed is a widespread phenomenon in a naturally occurring environment (Hodge, 2003).

The objective of this research is not to comment upon specific disclosures but, in general, to identify whether the stakeholders are facing the ‘disclosure overload’ problem and bring it to the attention of the regulators. The objective is to find out whether the stakeholders of the financial statements can find the information they are looking for and can make their decisions basis the information presented. Alternatively, they believe that the information is lost in too many disclosures, affecting their decision-making. Also, the research aims to find out, at a broad level, a set of disclosures that the users may not be finding relevant for their decision-making. As a part of this process, our research may suggest a manner of presenting such financial information to make the financial information relevant.

The remaining paper is structured as follows: the second section specifies Data and Methodology for this study; the third section presents survey results and discussions; the last section gives the conclusion and suggestions for enhancing the effectiveness of information disclosed in financial statements.

2. Data and Methodology

To conduct this study, a survey instrument was designed consisting of 14 MCQs and six narrative-style questions (given in Appendix). The survey was administered through google docs. The link for the survey was posted on LinkedIn by the two authors, along with a brief note on the topic and purpose of the study. Since the agenda of research was sufficiently disclosed, all the responses were from the professionals in the world of finance and accounting. The survey instrument was designed to capture the background information about participants, such as professional qualifications and experience. Purposive sampling was used to aid us in getting useful replies for conducting the study. Expert purposive sampling is used when the researcher needs to obtain knowledge from individuals with particular expertise. In the current study, the participants were mainly professionals from the world of accounting and finance having adequate exposure to corporate financial statements. This reflection of expert purposive sampling gets reflected in Figure 2. In all, 108 professionals responded to our survey request. About 52% of respondents were chartered accountants (auditors). 65% of respondents were carrying a professional experience of more than 10 years. The respondents' experience in years is given in Figure 1. We chose professional users as they reflect a significant subset of the potential users of general-purpose financial statements and are reasonably proficient in offering primed viewpoints (Drake et al., 2019). The sample diversity will help us examine and incorporate the variety of decision environments and user traits.

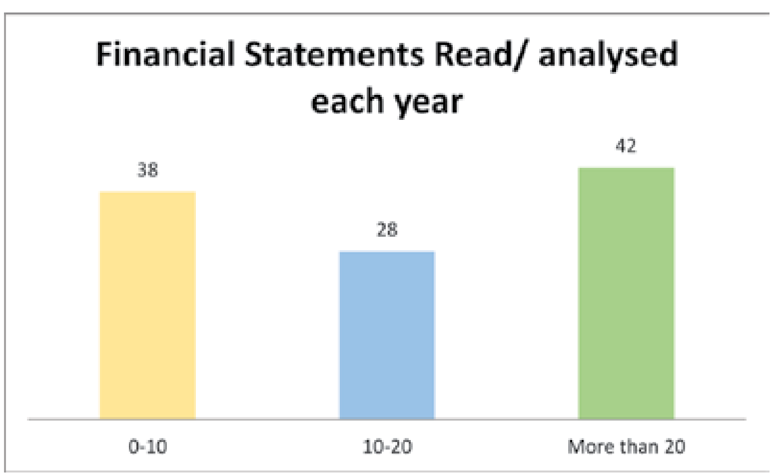


Figure 1: Relevant exposure of Respondents

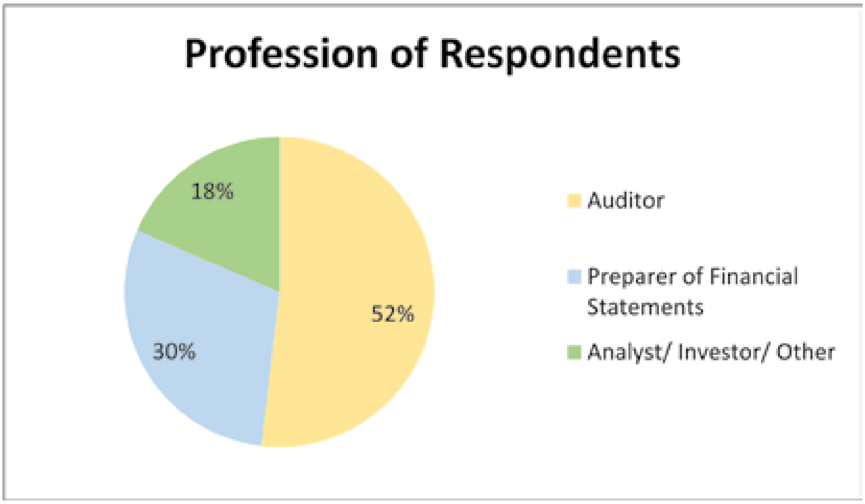


Figure 2: Profession of respondents

The survey results were analyzed in two ways:

a. The replies to MCQs were analyzed using quantitative techniques such as bar charts, frequency distribution and pie charts.

b. The narrative replies for each question were analyzed using the qualitative technique. Both authors carefully read each reply jointly and analysed using the content analysis.

3. Results and Discussion

The findings of the study are presented and discussed in two subsections below.

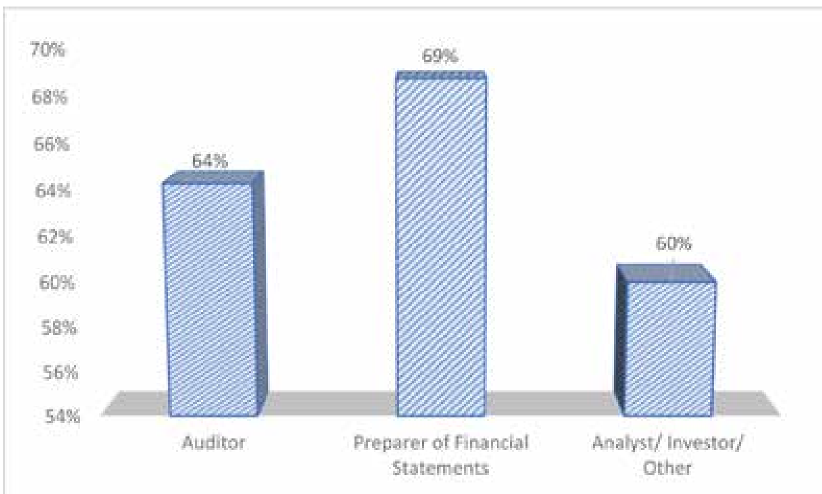
3.1 Analysis of quantitative responses

			Constitution of Respondents			Financial statements read in a year (in no. of FS)			Experience (in years)			
Q No.	Question	% Agree	Auditor	Preparer	Analyst/ Investor/ Others	0-10	10-20	More than 20	Less than 5	5 - 10	10-15	> 15
1	Do you read all the disclosures? E.g., AOC - 1, level of fair valuation, interest in other entities, etc?	65%	64%	69%	60%	61%	71 %	64%	53%	67%	70 %	66 %
2	Do you believe that some of the disclosures are excessive and should be removed?	79%	82%	84%	60%	74%	86 %	79%	87%	75%	78 %	78 %
3	Do you believe that some of the disclosures required by Schedule III of the Companies Act should be submitted separately to the regulator?	67%	64%	69%	70%	76%	50 %	69%	67%	75%	70 %	64 %
4	Do you believe if some of the disclosures are removed, it would make the financial statements more relevant and reader-friendly?	81%	82%	91%	65%	84%	82 %	79%	87%	83%	78 %	81 %
5	Do you think financial statements should be standardized - e.g., format of tables, design, color, etc. be standardised and space for notes and policies be given separately below every table?	73%	71%	69%	85%	79%	68 %	71%	80%	67%	65 %	76 %
6	Do you believe that companies hide relevant disclosure between some not so relevant disclosures, by giving too many disclosures?	78%	79%	72%	85%	79%	79 %	76%	87%	58%	74 %	81 %
7	Do you believe that chances of errors increase if companies give too many disclosures, and hence disclosures must be reduced?	70%	80%	72%	40%	74%	68 %	69%	73%	67%	74 %	69 %
8	Do you think detailed ageing of trade receivables and payables is relevant (compared to simple more than 6 months and less than 6 months)?	63%	63%	47%	90%	58%	61 %	69%	67%	50%	65 %	64 %
9	Do you think detailed disclosures of CWIP as required by Schedule III of the Companies Act has added value for the investors/ analysts in their decision-making about the Company?	58%	61%	44%	75%	58%	54 %	62%	53%	58%	65 %	57 %
10	Do you think regulators must require additional disclosures to give more information about the financial health of a company to lenders/ creditors?	55%	52%	47%	75%	58%	36 %	64%	67%	42%	48 %	57 %
11	Do you find the ratios (as per Schedule III of the Companies Act) useful?	68%	57%	75%	85%	76%	64 %	62%	100 %	83%	78 %	52 %
12	Do you think SEBI should do away with the requirement of publishing financial results in Newspaper (and only require publishing it on stock exchanges and company website)?	65%	63%	75%	55%	61%	68 %	67%	53%	67%	70 %	66 %
13	Do you read accounting policy of companies?	89%	91%	88%	85%	89%	86 %	90%	87%	83%	91 %	90 %
14	Do you believe that too many disclosure requirements increase instances of non-compliance?	76%	84%	78%	50%	74%	75 %	79%	73%	75%	70 %	79 %

Responses to questions 2, 3, 4, 5, 6, 7 and 14 point out that the majority of the respondents believe that there is a disclosure overload problem and it can lead to errors or non-compliances. Detailed analysis is given in ensuing paragraphs.

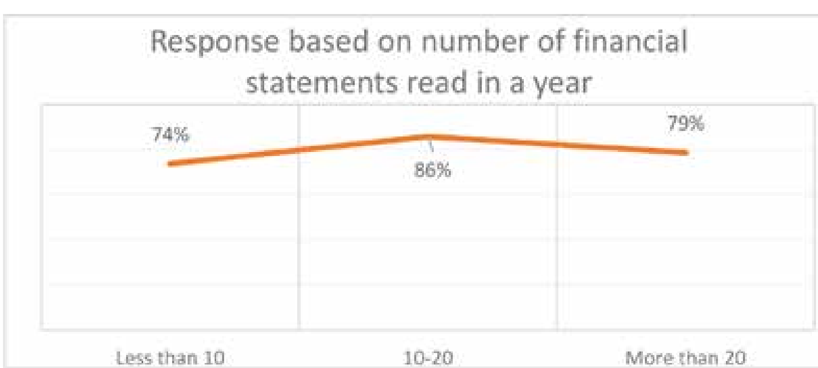
I. Do you read all the disclosures? e.g. AOC - 1, level of fair valuation, interest in other entities, etc?

Only 65% of the respondents read all the disclosures i.e. 35% of the respondents feel that some of the disclosures are not relevant for their decision making. That is a concerning number considering a population of 92% Chartered Accountants almost equally spread out between preparers, auditors and investors/ analysts. Specifically, only 60% of the analysts/ investors read all the disclosures.



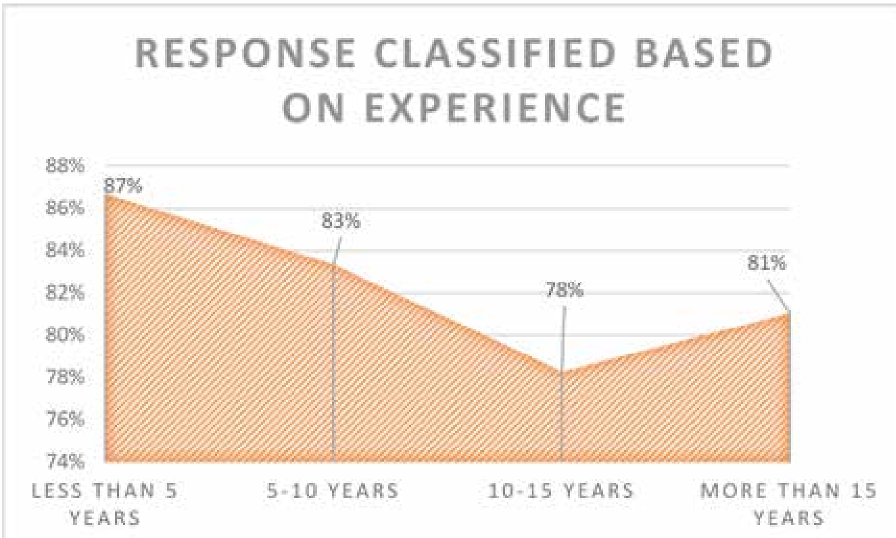
II. Do you believe that some of the disclosures are excessive and should be removed?

A whopping 79% respondents felt that some of the disclosures are excessive and hence, should be removed. The belief was stronger with people who read more than 10 financial statements a year.



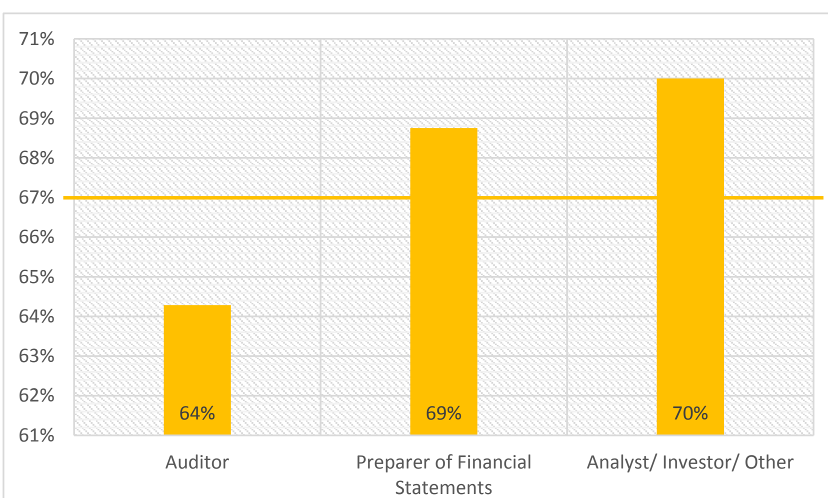
III. Do you believe if some of the disclosures were removed, it would make the financial statements more relevant and reader-friendly?

A resounding 81% respondents felt that financial statements can be made more relevant and reader-friendly by removing some of the disclosures. It is interesting to note that 87% of the young respondents agreed to the statement.



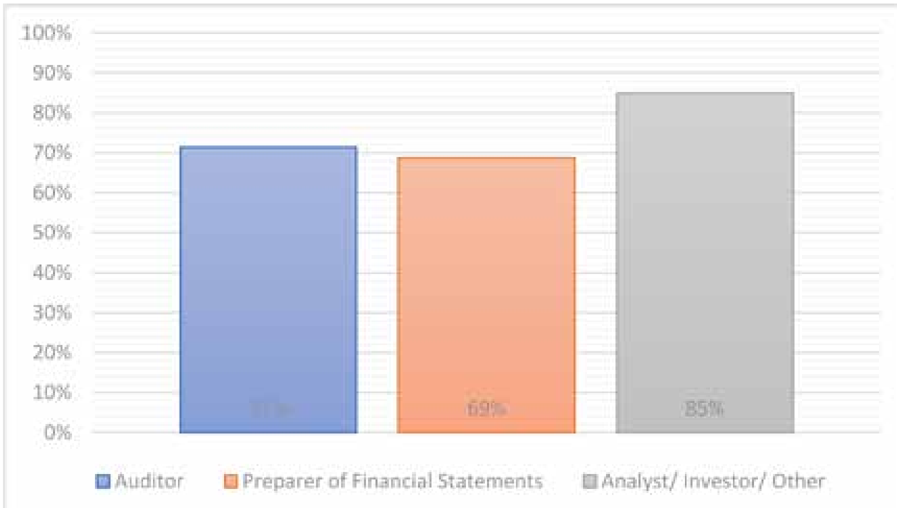
IV. Do you believe that some of the disclosures required by Schedule III of the Companies Act should be submitted separately to the regulator?

69% of the preparers (and 67% of all respondents) agree that financial statements need not contain some of the disclosures required by Schedule III and they can be submitted directly to the regulator.



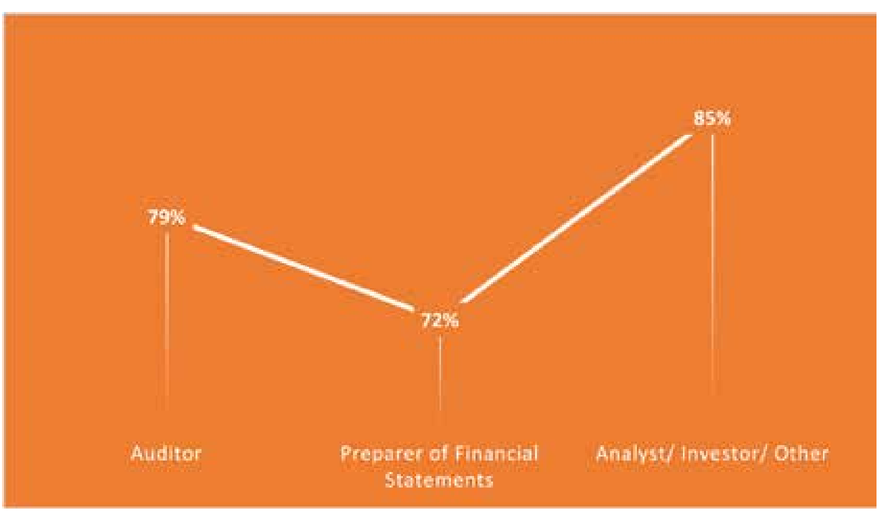
V. Do you think financial statements should be standardized - e.g., format of tables, design, color, etc be standardised and space for notes and policies be given separately below every table?

85% of Analysts/ Investors and 73% overall respondents agree that financial statements would be easier to read if it is standardised.



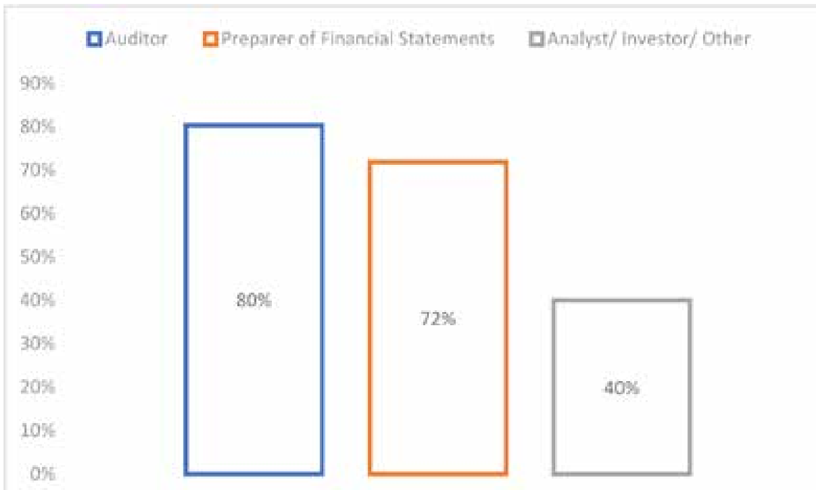
VI. Do you believe that companies hide relevant disclosure between some not so relevant disclosures, by giving too many disclosures?

78% of the respondents agree that companies hide relevant disclosures between some not so relevant ones. It is interest to note that 72% Preparers of financial statements themselves agree to the statement.



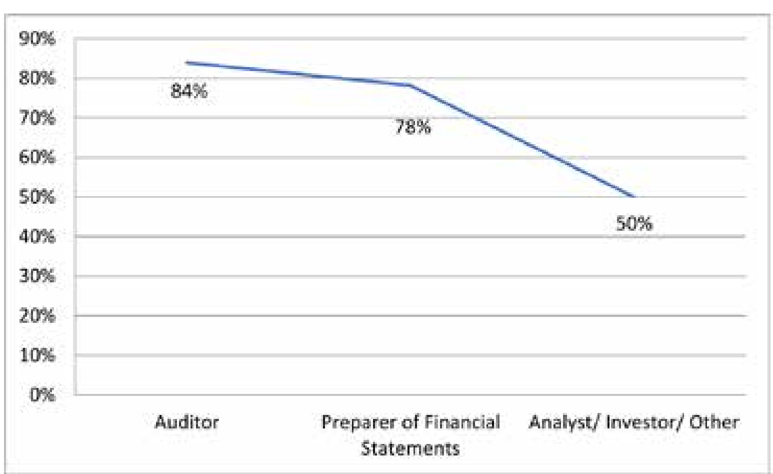
VII. Do you believe that chances of errors increase if companies give too many disclosures, and hence disclosures must be reduced?

The response to this question is an interesting one. While 70% respondents on an overall basis agree to this Statement, only 40% of the Analysts/ Investors agree to it. Largely, it is the Auditors and Prepares of financial statements that believe that chances of errors are higher when there is a disclosure overload.



VIII. Do you believe that too many disclosure requirements increase instances of non-compliance?

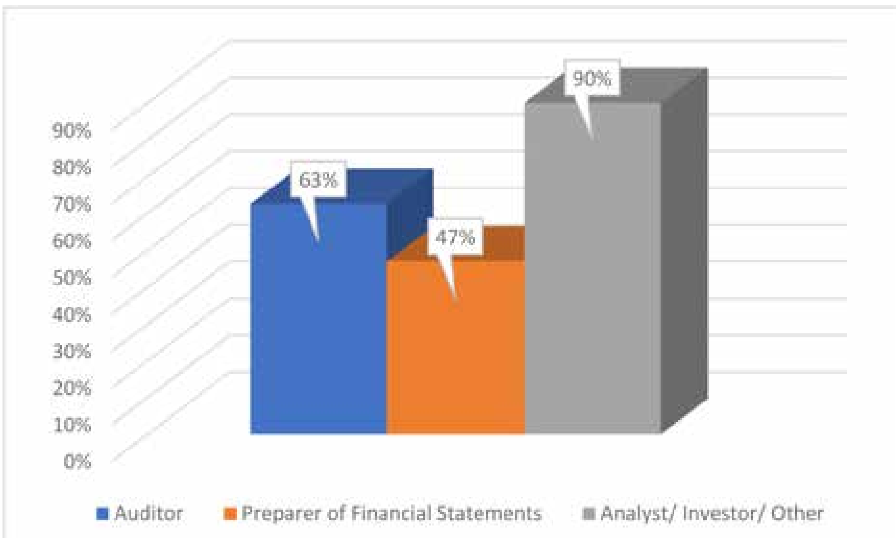
While 76% of the overall respondents believe that too many disclosure requirements is one of the main reasons for non-compliance, only 50% of the investors/ analysts believe so.



IX. Do you think detailed aging of trade receivables and payables is relevant (compared to simple more than 6 months and less than 6 months)?

The erstwhile Schedule III of the Companies Act required a simple presentation of trade receivables and payables i.e. more than 6 months and less than 6 months. Now, however, the revised Schedule III requires a detailed presentation requiring the split of receivables and payables into various buckets. Hence, the query was posed to the respondents to understand whether they find the additional disclosure relevant.

Interesting to see that while 90% of the analysts/ investors find it relevant, 53% of prepares do not find it relevant. Overall, only 63% respondents agree that it is relevant.

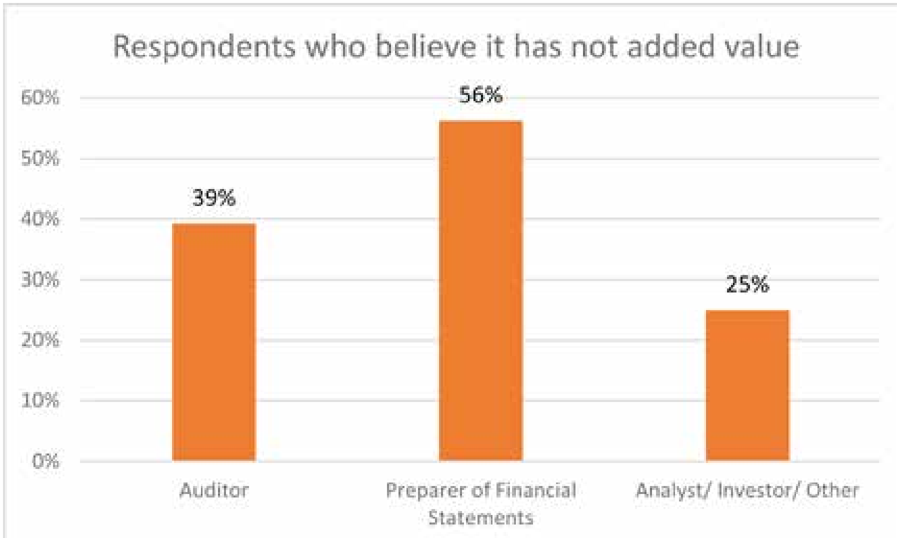


X. Do you think detailed disclosures of CWIP, as required by Schedule III of the Companies Act, has added value for the investors/ analysts in their decision making about the Company?

The revised Schedule III of the Companies Act, 2013 now requires detailed ageing of Capital Work-in-Progress (CWIP) including whether the projects are suspended. The query was posed to the respondents to understand whether they find the additional disclosure relevant.

This is also a close tie - 42% overall respondents believe that the disclosure does not add value for the investors/ analysts in their decision making. However, only 25%

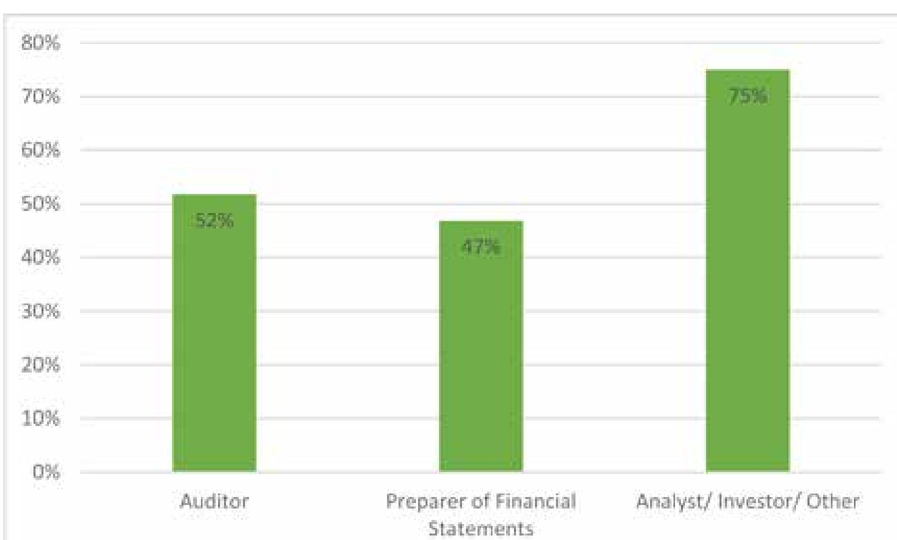
analysts/ investors believe that this disclosure does not add value in their decision making.



XI. Do you think regulators must require additional disclosures to give more information about the financial health of a company to lenders/ creditors?

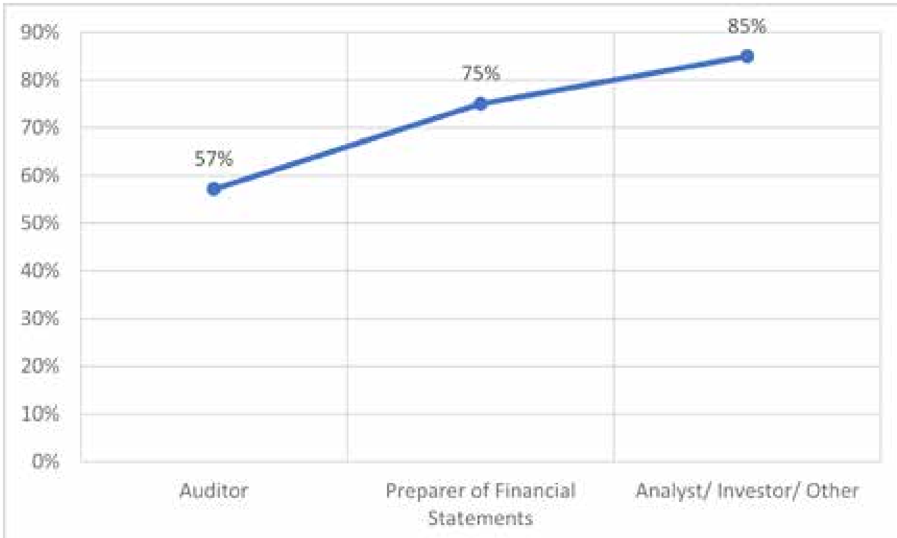
This question was posed to the respondents to understand whether they believe additional disclosures for a specific category of stakeholders i.e. lenders/ creditors must be required by the regulators.

While 55% of the overall respondents agreed, a majority of preparers of financial statements disagreed to the statement.



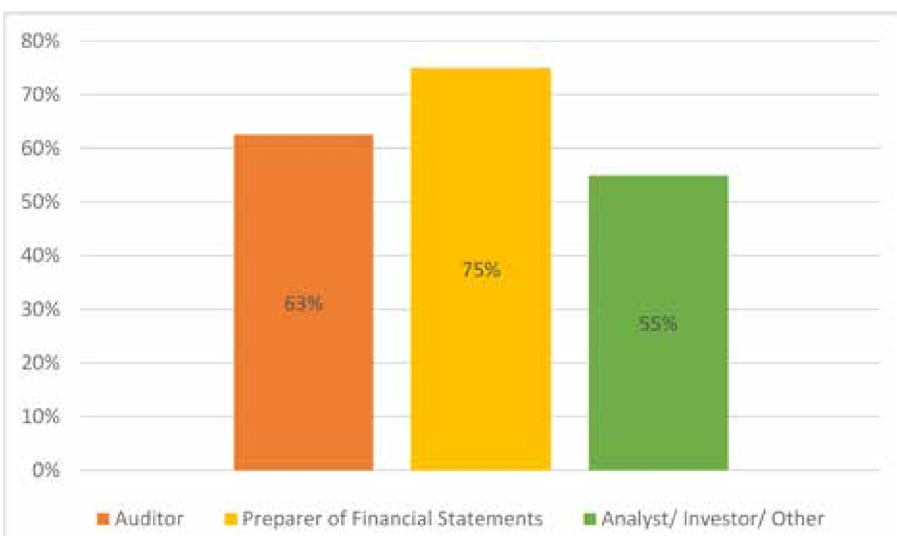
XII. Do you find the ratios (as per Schedule III of the Companies Act) useful?

68% of the respondents find the ratios useful. While it seems that only half the auditor respondents find it useful, 85% of the analysts/ investors find it useful.



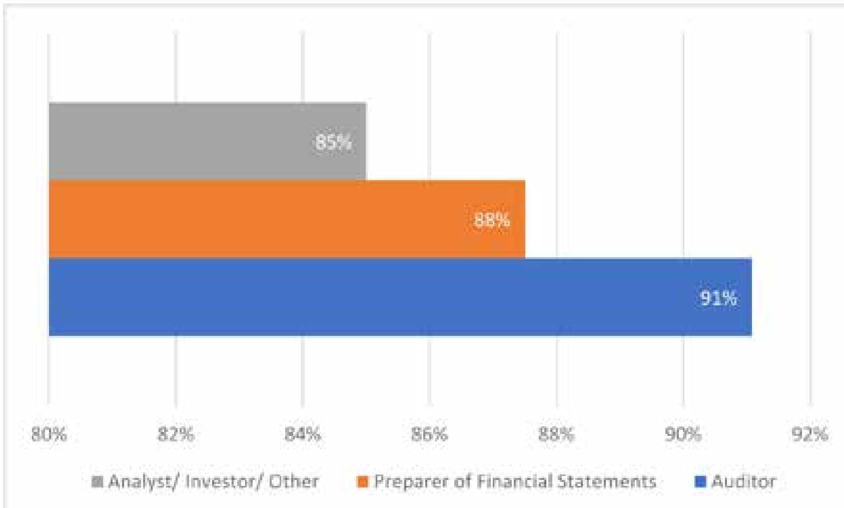
XIII. Do you think SEBI should do away with the requirement of publishing financial results in Newspaper (and only require publishing it on stock exchanges and company website)?

The Securities and Exchange Board of India (SEBI) mandates listed companies to publish their financial results in newspapers. 65% of the respondents, including 55% of the analysts/ investors, believe that SEBI should do away with this requirement.



XIV. Do you read accounting policy of companies?

Only 11% of the respondents did not read accounting policies of companies. 91% of the auditors and 85% of the analysts/ investors read accounting policies of companies.



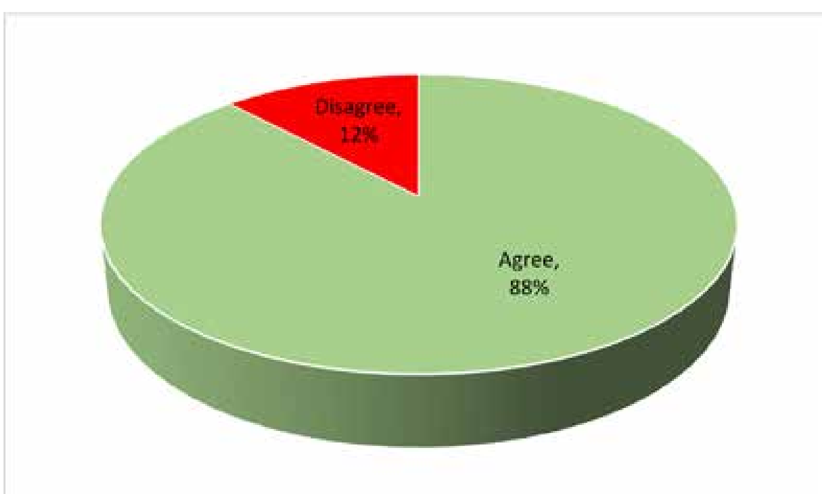
XV. How many respondents have agreed to atleast one of the following statements:

a. Do you believe that some of the disclosures are excessive and should be removed?

b. Do you believe that some of the disclosures required by Schedule III of the Companies Act should be submitted separately to the regulator?

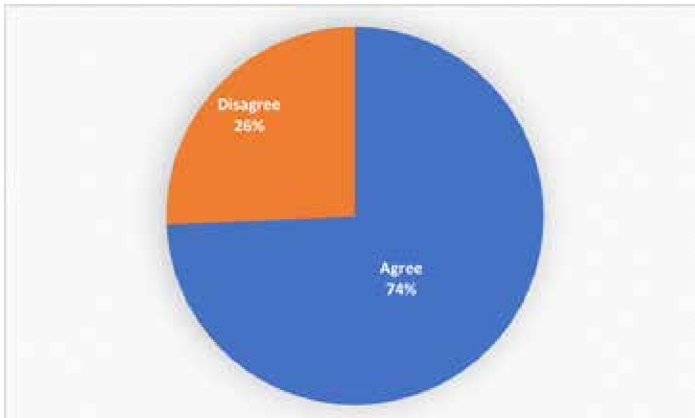
c. Do you believe if some of the disclosures are removed, it would make the financial statements more relevant and reader-friendly?

88% overall respondents agree that the 'disclosure overall' problem exists.



XVI. Of the respondents that read all disclosures, how many believe that some of the disclosures are excessive and must be removed?

74% respondents that read all the disclosures believe that there exists a disclosure overload problem.



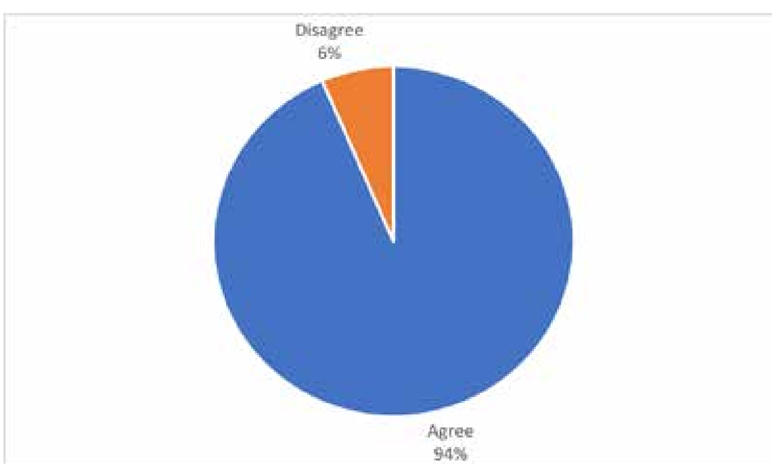
XVII. How many respondents have agreed to atleast one of the following statements:

a. **Do you believe that companies hide relevant disclosure between some not so relevant disclosures, by giving too many disclosures?**

b. **Do you believe that chances of errors increase if companies give too many disclosures, and hence disclosures must be reduced?**

c. **Do you believe that too many disclosure requirements increase instances of non-compliance?**

An assuring 94% agree that too many disclosures lead to errors or non-compliance or may be misused for hiding relevant information between not-so-relevant ones.



3.2 Analysis of qualitative responses (SV)

I. Which Ind AS disclosures do you think is excessive/ should be removed from Ind AS and why? Request to mention specific disclosures along with Ind AS para numbers, if possible.

Most respondents (79%) believe that some disclosures are excessive and should be removed. Their specific replies concerning the question stated above were analysed; the findings of our analysis are discussed below:

i. Most of the respondents mentioned, "Financial Instruments" (Ind AS 32, Ind AS 109 and Ind AS 107). The problem areas highlighted by respondents were "Reconciliation of Level 3 hierarchy of Financial instruments", "fair value hierarchy", "disclosure on financial instruments can be reduced and given in concise manner", "sensitivity analysis – impact of movement by 10% adds no value", "can be removed for a smaller class of companies", "capital management", "too many and overlapping disclosures", "Currently the disclosure is too large for any company or reader to understand. It should be modified to some standard set of format". A Few respondents indicated the discomfort disclosures mandated by "Financial Instruments Disclosures" (Ind AS 107). Specifically, sections 107.17, 107.18, 107.19, 107.6, and 107.39 were mentioned as a cause of "dislosure overload. The specific observations of respondents in this regard were – "disclosures under Ind AS 107 are not very clear", "Financial risk management and capital management disclosures under Ind AS 107 can be standardised for companies", "Too much security details is also not relevant to the reader." Most of the respondents mentioned sensitivity analysis and fair value hierarchy as an excessive part of disclosure requirements.

ii. Some respondents mentioned "Employee Benefits" (Ind AS 19). Few respondents were of the opinion that a big part of disclosure requirement under this Ind AS is replication of actuary valuation report. The respondent's points of concern were - "actuarial valuation table", "No need to provide investment pattern, expected contribution to the plan for next annual reporting period, maturity analysis, sensitivity analysis."

iii. Some respondents believe that Ind AS 115 requires excessive disclosures, which don't add any value for the reader. They felt that disclosure under this AS are "way too excessive." About disclosure relating to disaggregation of revenue, the opinion shared by one of the respondents was- "Most of the information is already included in the segment disclosure as per INDAS 108 where segment wise revenue is already included. Hence disaggregation could be avoided as it gives further drill down of the segmental revenue only and does not value add to the reader." A respondent pointed out specifically para

126AA which requires determining the transaction price and an the amount allocated to performance obligations.

iv. Ind AS 116 – Respondents also pointed out about disclosure problem concerning Leases mandated by Ind AS 116. Some of the responses in this regard were - "Movement of lease liabilities as per Ind AS 116 can be removed as the same already gets covered at other places in financial statements like payment made in cash flow, interest in finance cost, additions in ROU assets", "Cash flows related information gets repeated".

v. A concern shared by a respondent was regarding segmental cash flow disclosure under Ind AS 7 (section 7.52). The respondent's view in this regard was "I think it makes the majority of people reading the annual reports confused. Cash Flow disclosures should be straight on an overall level, and segmental cash flows disclosures could be given elsewhere for more sophisticated investors."

vi. Some of the other Ind ASs reported by the respondents involving too much of disclosures are - Ind AS 103, Ind AS 18, Ind AS 10, Ind AS 114, Ind AS 24, Ind AS 113, and Ind AS 1

vii. Few respondents opined that all such Ind ASs the prescribe fair valuation, promote subjectivity and defeat the purpose of standardization/ comparability. Many disclosures lack objectivity. Some of the specific areas pointed out by the respondents were Financial Instruments, Leases, Revenue and Business Combination. 1.

II. Which disclosures required by Schedule III of the Companies Act do you think is excessive/ should not be mandated and can be separately submitted by the Company to the Regulator in XBRL format?

The majority of respondents (79%) are of the view that some of the disclosures are excessive, and around 67% of the respondents believe that some of the disclosures mandated by Schedule III of the Companies Act should be submitted separately to the regulator. Their specific replies with reference to the question stated above were analyzed; the findings of our analysis are discussed below:

i. Most of the responses are about items mentioned in newly added **Part L (Additional Regulatory Information)** of disclosure requirements specified in Schedule III. The respondents are of the view that disclosures concerning (a) Wilful defaulter, (b) Relationship with struck-off companies (secretarial department can directly submit with Regulators), (c) CWIP, (d) Loan or advances to related parties, (e) Benami property held, (f) Compliance with the number of layers of companies, (g) Title deed of immovable property, (h) Security details for borrowings not held in the company name, and (h) ratios (i) related party should not be mandated by Schedule III of the Companies Act, 2013 as they add little value to the financial statements. A respondent mentioned, "Ensuring compliance with ROC filing, number of layers of companies, wilful defaulter, transactions with struck off companies etc., wherein secretarial department can directly submit with Regulators". Around 7.27% of the respondents are of the view that ratios should not be part of mandatory disclosures. Another respondent mentioned, "Benami property disclosure is blank for most of the entities." Many respondents pointed out about disclosures relating to transactions with struck off companies, detailed ageing schedule of trade payables, receivables, Capital Work in Progress (CWIP) and Intangible under development (IAUD) as excessive and irrelevant. A respondent opined that 'decision making by shareholders does not depend on CWIP ageing'. A respondent in the context of CWIP and IAUD mentioned "Giving project level information in financials may not be practical some time considering confidentiality of projects (e.g., in pharma sector intangible under development at project level are confidential in some cases.) and preparing ageing at global level including all subsidiaries may require substantial amount of time."

ii. Around 12.7% of the respondents raised concerns about ageing-related disclosures mandated by Schedule III of the Companies Act. These concerns were about both Trade Payables and Trade Receivables. The view of the respondents in this context is that "ageing disclosures of TR and TP should only be restricted to less than 6 months and more than 6 months", "at max more than 3 years category can be disclosed", "current bifurcation into five different categories is not relevant to the reader." The respondents also expressed their disagreement with respect to separate disclosure of MSME-related dues under trade payables. They felt that this is not required since companies are covering this dimension in MSME Form 1. Another respondent stated "This has been added in the recent amendments to schedule III; however the same is already being reported by auditor in the CARO report, so it leads to duplicity. Can be avoided in FS."

iii. Some responses were general, expressing a general view about the inappropriateness of disclosure requirements mandated by Schedule III of Companies Act. A few respondents believe that "disclosures should be restricted to larger companies only and not for all classes of companies." Furthermore, some respondents also stated that "disclosure requirements in Schedule III are additional and the same does not substitute disclosure requirements provided in Ind AS. Hence, most of these disclosures in Schedule III should be submitted in XBRL Format to make the annual reports more user-friendly and more focused." Some mentioned "In multiple jurisdictions, we don't have different formats for financial statements defined by regulations. So we can do away with Schedule III as a concept and let the disclosures be as per Ind-AS. We can follow only one base instead of complying with both and then debating on who overrides whom." A respondent even mentioned complete displeasure about recent amendments and stated, "All the regulatory requirements recently introduced are irrelevant and are not adding any value to users of the financial statements." Another respondent stated, "Other than Ind AS related disclosures, I believe additional disclosures may not be required." Another respondent stated "In multiple jurisdictions we don't have separate formats for financial statements defined by regulations. So we can do away with Schedule III as a concept and let the disclosures be as per Ind-AS. We can follow only one base instead of complying with both and then debating on who over rides whom. In another response I have written about governments power to demand additional information so not commenting on the later part of the question here." Thus, the general view is that additional disclosures mandated by Schedule III are not adding value for the reader of the financial statements

iv. A respondent considered CSR disclosures non-relevant and should not be mandatory.

v. A respondent stated "Financial information pursuant to Schedule III of the Companies Act, 2013, Loans and Advance(s) like Loan (Regulations 34 (3) and 53 (f) read together with Para A of Schedule V of the SEBI (Listing Obligations and Disclosure Requirements, 2015)" should be separately submitted by the company to the regulator.

vi. Another respondent mentioned that "Financial information pursuant to Schedule III of the Companies Act, 2013 where all the subsidiaries individual financial information is published, is an excessive disclosure which generally a reader or investor does not focus on. Can be removed from FS."

vii. In the context of recent amendments, a respondent stated "All the regulatory requirements recently introduced are irrelevant and are not adding any value to users of the financial statements." Another respondent mentioned about disclosure of title deeds of immovable properties not in the name of the Company that "this has been added in the recent amendments to schedule III however the same is already being reported by auditor in CARO report, so it leads to duplicity. Can be avoided in FS."

III. Which disclosures generally you find very relevant?

Although a majority of respondents are of the view that 'disclosure problem' exists in Indian financial statements on account of excessive disclosures, the same set of respondents do feel that certain disclosures are highly relevant and enhance the usefulness of reported financials. The detailed analysis of responses received against this question is shared below:

i. Respondents feel that disclosures relating to borrowings, such as security details of borrowings, bifurcation of borrowings as secured and unsecured, liquidity profile which shows maturities of liabilities in the next five years or more, etc. are relevant for the decision maker.

ii. Many respondents feel that disclosure of contingent liabilities, ageing details and financial ratios is beneficial for the user of financial statements.

iii. Few respondents found segment and related party related disclosures and useful. Although they were of the opinion that excessive disclosure requirements of Ind AS and Company law has a negative influence on utlity of financial statements. At the same time, need for uniform definition of 'related party' in all the statues Ind AS, Companies Act, SEBI and Income Tax Act was thrusted upon.

iv. One of the respondents felt that all the current disclosures are useful and relevant. Another respondent was of the view that most of the disclosures are relevant.

v. A respondent felt that disclosure of significant accounting policies is highly relevant in understanding the reported financials. However, another respondent mentioned that "Well drafted accounting policies and not just copy paste" is required to make such disclosure relevant for the decision maker.

vi. Disclosure about "going concern" is useful. A respondent stated, "management's assessment on going concern is important."

vii. Disclosure about the "ECL movement" is useful. Risk management related disclosures are desirable so far these are not "copy paste" kinds and comprise "more specific information."

viii. Some respondents opined that the disclosures regarding "exceptions items", "significant estimates and judgements" add value to the reported financials. A respondent stated, "Disclosure on significant judgements and estimates, impairment evaluation details, and tax reconciliations provide useful data, if relevant information is provided by the companies."

ix. The respondents who are of the view that disclosures are not excessive (21%) mentioned that disclosures as per Ind AS 115, 116, 103, 24,11,113,1, 7, 37 and 17 are highly relevant. They also advocated disclosures pertaining to accounting ratios and aging of debtors and creditors in accordance with Schedule III of the Companies Act 2013.

x. A few respondents also advocated MSME related disclosure, which are mandated by Schedule III of the Companies Act 2013.

IV. Which disclosures generally you skip while reading / analysing the financial statements?

Around 35% of the respondents did not read all the disclosures. The analysis of responses to this question reveals following disclosures which were usually skipped by the respondent(s) while reading/analysing the financial statements:

i. The respondents (35%) who did not read all disclosures skipped disclosures relating to financial instruments, related party transactions, employee benefits, leases, significant accounting policies and all the additional disclosures prescribed by Schedule III of company law. A respondent mentioned that "segment reporting rarely provide meaningful information." Another respondent mentioned about irrelevance of debtor and creditor ageing related disclosure since "by the time the results are published data becomes irrelevant."

ii. Of the remaining 65% of the respondents who mentioned that they read nearly all disclosures, almost 60% responded favourably to this question and acknowledged skipping disclosures relating to employee benefits, financial instrument, accounting policies, related party transactions and deferred tax.

iii. Most of the respondents mentioned "Financial instruments" related disclosures.

iv. Many mentioned "Related Party Transactions" and "Employee benefit" disclosures. Respondents stated that they skipped the "ESOP details, gratuity, leave encashment, actuarial assumption."

v. A respondent mentioned "Reconciliation of deferred tax asset and deferred tax liability' related disclosure."

vi. Two respondents skipped disclosures in Form No. AOC-1

vii. A few respondents skipped disclosures mandated by "Ind AS 1, Ind AS 8, Ind AS 16, Ind AS 38, Ind AS 102, Ind AS 103 and Ind AS 116"

viii. Disclosures on risk

ix. Disclosures on Share capital, other equity, and movements

x. Some respondents mentioned that they skipped additional disclosure requirements specified by Schedule III of the Act, such as "additional information, additional regulatory information, ratios, contingent liabilities.

V. What are your thoughts on the disclosures which have been mandated by Ind AS/ regulators to give more information about the financial health of

a company to the creditors/ lenders? Do you believe disclosures in the financial statements must only be from investor/ analyst perspective and not from the perspective of any other stakeholder?

The majority of respondents feel that disclosures in the financial statements should meet the requirement of all stakeholders, not only investor/analysts. At the same time, many respondents also stated that "the financial health of the company can be understood from the disclosures already provided by the company." A respondent mentioned that' the company is preparing General Purpose Financial Statements to serve the interest of all stakeholders at large and also advised that 'a separate statutory disclosure in the form of a report in prescribed format needs to be submitted to RBI/SEBI/MCA keeping in mind Bankers/Financial Institutions'. However, some respondents were of the view that disclosures in the financial statement should be from investor perspective only since 'the lenders do their own underwriting and have more access to financial and non-financial information which is relevant for their assessment'; 'the financial health disclosure should be outside the financial statement and can be given directly to lenders as this is making the statements very bulky'; 'majorly investors and analysts are interested in reviewing the financial statements, so disclosures from their perspective are appropriate'.

VI. What are your thoughts on disclosure of accounting policies of companies? Would it help if a company discloses only those policies where there are accounting choices available in the Standards and remove those which are majorly replicates of the Standards?

89% of respondents stated they read accounting policies disclosed by the companies. Careful analysis of such respondents' responses to this question reveal:

i. Around 20% of the respondents believed that the existing style of giving a comprehensive disclosure of accounting policies is right since 'this help in better understanding to the investors and other stakeholders. The respondents advocated this in the interest of aiding "readers' comprehension" specifically for retail investors and non-CA readers.

ii. Balance 80% respondents opined that only relevant disclosures of applicable accounting policies should be done. A respondent stated that 'only deviations should be reported.' Few respondents stated that 'the major replication of accounting standard can be removed'. Some respondents also feel that 'most of them are copy paste' and add no value. A respondent advocated this by saying that this "would save redundancy."

iii. Few respondents also responded by saying " NA" and few other stated their non-competence on giving opinion about this technical issue.

4. Conclusion and Suggestions

In this study, we conducted a survey eliciting responses from professional financial statement users (i.e. preparers, auditors, investors, analysts, etc.) on the topic of disclosure overload in order to bring the issue to the attention of Indian regulators and standard-setters. The result of our survey provides empirical evidence confirming the existence of 'disclosure overload' problem in the financial statements. This is in line with the claims made by many users and preparers of financial statements not just in India, but also internationally. Our survey is the first in India to directly assess the perceptions of disclosure overload among professional users and preparers.

A key finding of our survey is that only 60% of the analysts/ investors read all the disclosures. One of the characteristics of useful financial information, as per the Conceptual framework of Ind AS, is that it should be relevant, i.e. it should be capable of making a difference in the decisions made by users. If the users do not even read all the disclosures in a financial statement, it is a clear that many of the disclosures are not relevant. As such, our survey result raises a key concern for the standard-setters and regulators about the sheer volume of disclosures required in the financial statements of an Indian company. This 'disclosure overload' issue is worsened due to additional disclosure requirements mandated through Schedule III of the Companies Act, 2013.

In addition, our survey results provide new insights to academics about the 'disclosure overload' problem. One might generally believe that non-professional investors may suffer from 'disclosure overload' problem when relying relatively more on unfiltered information, while professional users may remain relatively unaffected by disclosure overload. However, our study result indicates that a vast majority of the respondents (consisting of professionals) believe that financial statements are overloaded with excessive disclosures. Specifically, we find that more than four in five professional users feel that disclosure overload is a problem.

Further, our findings on the possible consequences of 'disclosure overload' problem provides an important insight. Almost all respondents believed that excessive disclosures lead to errors or non-compliance or increase the chances of misuse by hiding relevant information amongst the not-so-relevant ones. Hence, the 'disclosure overload' problem is not restricted to relevance from users perspective but also leads to increase in non-compliance from preparer's perspective. Recently, on 29 March 2023, the National Financial Reporting Authority (NFRA) released a Circular No. NF-25011/1/2023-O/o Secy-NFRA stating that *"During its recent review, instances of apparent noncompliance with the prescriptions of the Ind ASs in the critical areas of Revenue Recognition and Measurement, and Initial Measurement of corresponding Trade Receivables have come to light. In order to ensure adherence to high-quality Ind AS Reporting Framework, which is substantially aligned with globally accepted IFRS Standards, the instances of non-compliance are highlighted below for the urgent attention of the Company*

Management/Audit Committees and the Statutory Auditors". Such instances may be reduced by addressing the 'disclosure overload' problem.

We believe that our analysis should be useful to the regulators and standard-setters in understanding how professionals feel about the relevance of current disclosure requirements in the Ind AS and Schedule III of the Companies Act, 2013 and in their deliberations on projects concerning disclosures in the financial statements.

Based on our analysis, we would also like to make the following suggestions to the regulators and standard-setters:

A. Disclosures required by Ind AS

The disclosure overload problem exists not just in India but worldwide. Hence, it is time this problem is addressed head-on. In India, it's been six years of Ind AS implementation. Hence, there is enough experience of users of financial statements that can be considered for deciding which disclosures are really useful to the users of financial statements. Only 65% of respondents read all the disclosures, and 79% felt that the disclosures are excessive.

As a possible solution to this issue, the standard-setters may classify disclosures into the following three categories:

i. Disclosures that are not relevant, i.e., not useful to a majority of users of financial statements

Some disclosures like actuarial valuation related to employee benefits, capital management disclosures, disclosure of security of each borrowing, etc., can be done away with if most users of financial statements do not find it useful. Generally, disclosures such as actuarial valuation would be presented over 2-3 pages and many professionals, including investors, do not understand such disclosures. Hence, they do not read such disclosures.

Similarly, companies disclose multiple pages of details of assets given as security to lenders against each of its borrowings. While lenders may find this information useful, investors and other stakeholders would find it a 'disclosure overload'.

If a specific category of users, like lenders or regulators needs such information, it can be collected separately from companies in some form and shared with the relevant category of users.

ii. Disclosures that are only relevant if its material based on underlying transactions

Some disclosures like ESOPs, level of fair value hierarchy, and other financial instruments-related disclosures may be helpful only when the underlying transaction is material. Currently, if a Standard is applicable, companies generally present all the disclosures, even if they may not be material. Guidance may be issued around when disclosure is considered material or useful and should be disclosed appropriately.

Similarly, the disclosures required by the Schedule 3 of the Companies Act, 2013 is disclosed by all companies irrespective of the materiality. Such disclosures add to the 'disclosure overload' problem.

It is noteworthy that in the UK, auditors report publicly on the materiality threshold applied to focus their audit work, disclosing what level of misstatement or omission they consider matters to users of financial statements. Investors welcome this transparency according to the latest thematic review from the Financial Reporting Council (FRC). [Source: www.frc.org.uk]

Similarly, preparers of financial statements may disclose the materiality threshold applied on the disclosures/ information reported and hence, disclosing what level of information they consider matters to users of financial statements.

iii. Disclosures that are always considered to be useful or relevant

There are some disclosures that are always relevant from the user perspective, for e.g. class-wise details of property, plant and equipment, classification-wise break-up of financial instruments, etc. Such disclosures can be continued as mandatory in nature. However, a format may be prescribed for each disclosure, which will help make the disclosure comparable and relevant.

B. Disclosures required by regulators, e.g., Schedule III of the Act

India is one of the very few countries where regulators require a significant number of additional disclosures in the financial statements. Many respondents believe that the regulators separately obtain such information in some form, e.g., XBRL format. This information can also be made available to the specific category of users, like lenders/ creditors, as appropriate by the regulators. However, including such information in the financial statements makes other relevant information challenging to read for the users of financial statements in general. The information must be disclosed in the financial statements only if it is helpful to a large number of users.

C. Summarised Annual Report

A two-thirds majority agreed that the format of financial statements, including disclosure tables and notes, be standardized to increase the comparability and usefulness of the financial statements. The IASB and the ICAI have already issued amendments to the Standards for disclosure of accounting policies to include only those accounting policies where a company has options available or differs from the standard accounting policy.

One of the ways of achieving standardisation is to require companies to issue a summarised annual report containing only mandatory disclosures in a standard format. This would increase the comparability and relevance of the information contained in such report. This summarised annual report may be in addition to a detailed annual report that entities may issue voluntarily.

References:

Discussion Paper DP/2017/1 Disclosure Initiative—Principles of Disclosure, IFRS Foundation.

Drake, M. S., Hales, J., & Rees, L. (2019). Disclosure Overload? A Professional-User Perspective on the Usefulness of General Purpose Financial Statements. *Contemporary Accounting Research. doi:10.1111/1911-3846.12488*

Hodge, F. (2003). Investors' perceptions of earnings quality, auditor independence, and the usefulness of audited financial information. *Accounting Horizons 17 (Supplement): pp. 37–48.*

Leuz, C. & R. E. Verrecchia (2000).The Economic Consequences of Increased Disclosure. *Journal of Accounting Research, Vol. 38 No. 3, pp. 91-124.*

Saha, A., R.D. Morris & H. Kang (2019). Disclosure Overload? An Empirical Analysis of International Financial Reporting Standards Disclosure Requirements. ABACUS, Vol. 43, No. 1, pp. 205 – 236. http://dx.doi.org/10.1111/abac.12148

Staff Paper IASB Agenda Ref 11E (Feb 2018). Comment letter feedback- the disclosure problem.

Schedule III, Companies Act, 2013.

5. Appendix (Survey Instrument)

Survey on relevance of Disclosures in Financial Statements

Hello,

We are working on a research report to analyse the relevance and effectiveness of disclosure requirements in financial statements by Ind AS and Schedule 3 of the Companies Act.

We would really appreciate it if you are able to take out your valuable time to ll this survey form. There are some narrative questions wherein your detailed responses would really help us arrive at a meaningful conclusion.

We plan to take the outcome of this survey to the regulators and standard-setters in order to enable them to think over on the disclosure requirements and make them more relevant.

Thank you.

**Indicates required question*

1. Email *

   ____

2. What is your name? *

   ____

3. How many years of work experience do you have? *

   Mark only one oval.

   ⬭ 0-5 years

   ⬭ 5-10 years

   ⬭ 10-15 years

   ⬭ More than 15 years

4. Are you a CA? *

   Mark only one oval.

   ⬭ Yes *Skip to question 6*

   ⬭ No *Skip to question 5*

Choose professional qualification, if answer is No.

5. What is your professional qualification? *

____

Educational Survey Continuation

6. Are you a? *

Mark only one oval.

- ⬭ Auditor of Financial Statements
- ⬭ Preparer of Financial Statements
- ⬭ Investor
- ⬭ Analyst
- ⬭ Others

7. Which country are you from? *

____

8. How many financial statements do you read/ analyse each year? *

Mark only one oval.

- ⬭ 0-10
- ⬭ 10-20
- ⬭ More than 20

9. Do you think the current disclosure requirements relating to financial statements * is apt?

Mark only one oval.

- ⬭ Yes, it is apt
- ⬭ No, it is more than what is required.
- ⬭ No, some disclosures should be given

10. Do you read all the disclosures? E.g. AOC - 1, Level of fair valuation, interest in * other entities, etc?

Mark only one oval.

- Yes
- No

11. Do you believe that some of the disclosures are excessive and should be *removed?

Mark only one oval.

- Yes
- No

12. Do you believe that some of the disclosures required by Schedule III of the * Companies Act should be submitted separately to the regulator?

Mark only one oval.

- Yes
- No

13. Do you believe if some of the disclosures are removed, it would make the * financial statements more relevant and reader-friendly?

Mark only one oval.

- Yes
- No

14. Do you think financial statements should be standardised - e.g. format of * tables, design, colour, etc be standardised and space for notes and policies be given separately below every table?

Mark only one oval.

- Yes
- No

15. Do you believe that companies hide relevant disclosure between some not so relevant disclosures, by giving too many disclosures? *

Mark only one oval.

◯ Yes

◯ No

16. Do you believe that chances of errors increase if companies give too many disclosures, and hence disclosures must be reduced? *

Mark only one oval.

◯ Yes

◯ No

17. Do you think detailed ageing of trade receivables and payables is relevant (compared to simple more than 6 months and less than 6 months)? *

Mark only one oval.

◯ Yes

◯ No

18. Do you think detailed disclosures of CWIP as required by Schedule III of the * Companies Act has added value for the investors/ analysts in their decision making about the Company?

Mark only one oval.

◯ Yes

◯ No

19. Do you think regulators must require additional disclosures to give more information about the financial health of a company to lenders/ creditors? *

Mark only one oval.

◯ Yes

◯ No

20. Do you find the ratios (as per Schedule III of the Companies Act) useful? *

    Mark only one oval.

    ⬭ Yes

    ⬭ No

21. Do you think SEBI should do away with the requirement of publishing financial * results in Newspaper (and only require publishing it on stock exchanges and company website)?

    Mark only one oval.

    ⬭ Yes

    ⬭ No

22. Do you read accounting policy of companies? *

    Mark only one oval.

    ⬭ Yes

    ⬭ No

23. Do you believe that too many disclosure requirements increase instances of * non-compliance?

    Mark only one oval.

    ⬭ Yes

    ⬭ No

24. Which Ind AS disclosures do you think is excessive/ should be removed from * Ind AS and why? Request to mention specific disclosures along with Ind AS para numbers, if possible.

    ____

    ____

    ____

    ____

    ____

25. Which disclosures required by Schedule III of the Companies Act do you think * is excessive/ should be not mandated and can be separately submitted by the Company to the Regulator in XBRL format?

____

____

____

____

____

26. Which disclosures generally you find very relevant? *

____

____

____

____

____

27. Which disclosures generally you skip while reading / analysing the financial* statements?

____

____

____

____

____

28. What are your thoughts on the disclosures which have been mandated by Ind * AS/ regulators to give more information about the financial health of a company to the creditors/ lendors? Do you believe disclosures in the finanial statements must only be from investor/ analyst perspective and not from the perspective of any other stakeholder?

____

____

29. What are your thoughts on disclosure of accounting policies of companies? * Would it help if a company discloses only those policies where there are accounting choices available in the Standards and remove those which are majorly replication of the Standards?