

European Financial Reporting Advisory Group ■



Joint Outreach Event

Rome

6 December 2012

# Introduction and outline

## EFRAG Outreach events

EFRAG holds outreach events in partnership with National Standard Setters and user groups across Europe on a regular basis on topics of general interest to constituents. For more details of the Autumn 2012 series of events, please see the [EFRAG website](#).

### Joint Outreach Event, Rome, 6 December 2012

EFRAG and the Organismo Italiano di Contabilità (OIC), organised a joint outreach event, held in Rome on 6 December 2012, for constituents to debate and feedback on the EFRAG/ANC/FRC discussion paper *Towards a Disclosure Framework for the Notes* with an aim to eventually influence and provide input to the IASB on their envisaged disclosure framework project. Participants in Milano connected via video conference.

Alberto Giussani, Vice-Chair of the OIC Technical-Scientific Committee member and Alessandro Sura, OIC Research Director hosted the event.

Andrea Toselli, EFRAG TEG member, participated in the discussion.

Kristy Robinson, IASB Technical Principal also attended the event and provided an update on the IASB related activities.

## Summary of contents

1. Introduction and outline
2. Purpose of this feedback statement and details of attendees
3. EFRAG, ANC & FRC Discussion Paper: *Towards a Disclosure Framework for the Notes*
  1. Introduction to the discussion paper
  2. Feedback from constituents

# Feedback statement

## Purpose and use of this feedback statement

This feedback statement has been prepared to summarise the messages received from constituents at the outreach event and will be considered by EFRAG/ANC/FRC when deciding future steps for the project.

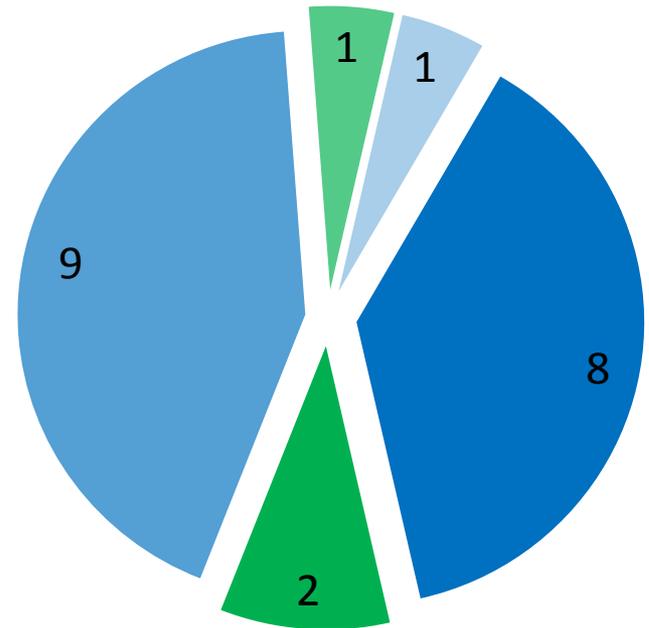
This feedback statement has been prepared by the EFRAG secretariat for the convenience of constituents. The content of the report has not been subject to review or discussion by the EFRAG Technical Expert Group.

## Participating constituents

Participating constituents have extensive experience with IFRS and most were currently involved at a senior level.

A breakdown of participants is presented opposite.

## Number by background



- Preparers
- Auditors and accountants
- Consultants
- Standard Setters
- Business Organisation

# Towards a Disclosure Framework for the Notes



In July 2012 EFRAG, in partnership with the French Standard Setter Autorité des Normes Comptables (ANC) and the UK standard setter Financial Reporting Council (FRC), published a Discussion Paper *Towards a Disclosure Framework for the Notes*. The FASB published a discussion paper of their own on the same day.

## Background

The objectives of Discussion Paper are to:

- a) identify what disclosures are relevant for the notes to the financial statements;
- b) discuss what materiality means from a disclosure perspective; and
- c) develop a set of principles for good communication of disclosures.

The objective of the Disclosure Framework is to ensure that all and only relevant information is disclosed in an appropriate manner, so that detailed information does not obscure relevant information in the notes to the financial statements.

## Information to be considered together with this document

To view information related to this discussion paper please access EFRAG's [project webpage](#). The comment period closed on 31 December 2012.

## Key principles in the discussion paper

The Discussion Paper identifies a number of key principles for a disclosure framework for the notes:

- a) Purpose and content of the notes;
- b) Setting disclosure requirements;
- c) Applying the requirements; and
- d) Communicating information

## Content of the discussion paper

EFRAG Senior Project Manager Filippo Poli set out the content of the discussion paper,.

## Open debate

An open debate, including questions on the discussion paper took place. The following pages summarise the key themes of the discussion and comments from constituents.

# The framework

## Summary of feedback received from constituents on the framework proposed in the Discussion Paper

Constituent	Comment
Majority of participants	There was overall support for a disclosure framework. The narrow scope of the discussion paper may create issues, because it is not clear what happens with information that does not fit with the proposed definition and criteria.
Auditor	The Discussion Paper should be addressed not only to the IASB, but also to the European Commission, the 'setter' of EU accounting regulations. EFRAG should present the proposals to the European institutions, in the context of the review of the Accounting Directives.
Consultant	It could be an interesting perspective to have an international body use the principles and draw on best practices to develop a disclosure quality index.
Auditor	<p>It is important to emphasize that disclosures should not be used to compensate or mitigate inappropriate recognition or measurement.</p> <p>The notion of a quality index seems interesting, but it is not clear which organisation would be in charge of auditing or enforcing it.</p>

# Setting the requirements

## Summary of feedback received from constituents on setting the requirements

Constituent	Comment
Auditor	One weakness of the Discussion Paper is that it did not discuss placement criteria for information outside the notes. So it is unclear what would happen with information such as post-balance sheet non-adjusting events or related party information.
Preparer	Risks disclosures need to be improved as large reports serve only for regulatory purposes.
Preparer	Checklists are ultimately useful in preparing disclosures. A behavioral change will be difficult to trigger.
Preparer	There may be a lack of incentive to review all disclosures. There are costs involved, while it is uncertain if it will lower the cost of capital for the entity.
Standard Setter	It is possible within the current requirements to perform this type of exercise. Some banks were able to do that, without serious pushback from their auditors and regulators.
Accountant	The issue is how much context should be given to disclosures. If an oil company reduces its maintenance expenses to an immaterial amount, does the reduction in the amount provide sufficient information on the increased risk?
Standard Setter	The Discussion Paper should have put more emphasis on comparability but the real issue is to understand what is relevant. Different users request different information. One type of necessary information was the composition of the consolidated group.
Preparer	There are so many judgment calls needed for many risk disclosures (take for example the corporate governance recommendation in the report from the Enhanced Disclosure Task Force) that there are limits to consider: goodwill or going concern are especially difficult areas.

# Different approaches and differential disclosure regimes

## Summary of feedback received from constituents on the different approaches and differential disclosure regimes

Constituent	Comment
Standard Setter	<p>It is difficult to operationalise selectivity, although the notion of differential regimes seems appropriate.</p> <p>It is not appropriate to leave full discretion to preparers, and an industry-based approach seems difficult given there is no generally accepted taxonomy of industries.</p>
Auditor	<p>It is necessary to draw a line between information that should be audited and information that should not be. Notes need to be objective and unbiased, while information based on management's intent does not qualify as such.</p>
Standard Setter	<p>The proportionality principle is well established in law-making. The Accounting Directives are an example where different levels of requirements are set for public interest entities, medium, small and micro entities.</p> <p>A good compromise solution would be to set general disclosure objectives, plus a core of requirements to be presumed material for that specific transaction or item. Entities would then assess if and what additional information is required.</p>

# Applying the requirements

## Summary of feedback received from constituents on applying the requirements

Constituent	Comment
Majority of participants	Overall agreement on materiality emphasis. Materiality guidance should be aligned in accounting and auditing requirements.
Business association	It would be impossible to enforce a prohibition of disclosing immaterial information.
Standard setter	Guidance on materiality should be developed carefully, so to avoid that it ends up being used as a checklist.
Auditor	The separation between the notes and other parts of the report is important, because information in the notes should meet a higher reliability threshold.
Preparer	Materiality for accounting purposes should be aligned to the assessment made by auditors.

# Communicating information

## Summary of feedback received from constituents on communicating information

Constituent	Comment
Standard setter	There is room to standardise more the information like it happens in Basel 3 Pillar III. Information scattered in different parts of the report makes difficult for the reader to understand the story.
Standard setter	XBRL could have a significant impact the perspective for disclosures (both narratives and quantitative), as well as their linkage. This could help reduce the volume of the notes.