

18 December 2012

EFRAG
35 Square de Meeus
B-1000 Brussels
BELGIUM

Dear Sir/Madam

Towards a Disclosure Framework For the Notes

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comments on the Discussion Paper.

The G100 strongly supports initiatives by EFRAG and other bodies to address the current volume, detail and complexity of disclosures required by accounting standards and efforts to develop a principles-based disclosure framework.

The G100 has been concerned about this issue for several years and, in 2009, published proposals "Less is More" in conjunction with PricewaterhouseCoopers (www.group100.com.au/publications). In that paper the G100 indicated that the development of a principles-based disclosure framework should be a high priority project for standard-setters and outlined principles based on materiality, relevance and transparency.

Q1.1 Key principles

The Discussion Paper sets out a number of key principles that should underpin a Disclosure Framework. Do you agree with these principles? If not, what alternative principles would you propose?

The G100 believes that the disclosure framework should address the tension between specifying detailed disclosures in each accounting standard as presently occurs in most circumstances and the views that a disclosure objective should be specified and that the board and management determine the disclosures which satisfy that objective. In the latter circumstances the directors and management would be identifying and responding to the information needs of shareholders and other users.

As outlined in "Less is More" the G100 considers that there is an intermediate and pragmatic approach which involves inclusion of a disclosure objective in each standard with core disclosures required specified in the standard and any additional 'voluntary' disclosures to satisfy the disclosure objective determined by the board and management.

Under this approach the standard-setter would apply the disclosure framework and key questions to determine the core disclosures.

For example, in respect of defined benefit pension plans a core disclosure may be the pension expense recognised in the period with additional disclosures relating to its composition etc being determined by the board and management depending on the entity's circumstances and the environment in which it is operating including any significant changes from period to period.

Q1.2 Understanding the problem

This DP suggests that there are two main areas for consideration to improve the quality of disclosures:

- a. *Avoiding disclosure overload, which may be caused both by excessive requirements in the standards, and by effective application of materiality in the financial statements;*
- b. *Enhancing how disclosures are organised and communicated in the financial statements, to make them easier to understand and compare.*

Do you agree that these are the two main areas for improvements?

The G100 agrees that these are two principal concerns. However, we believe that the principal issue is that relating to the actions of standard-setters which is the core issue. The organisation of disclosures is a secondary issue and can be addressed separately from that of excessive disclosure requirements. Accordingly, we believe that initially standard-setters should focus on the first issue.

Q2.1

In Chapter 2 a definition of the purpose of the notes is proposed to assist in deciding what financial information should be required in the notes. Do you think that there is a need to define the purpose of the notes? If not, please provide your reasoning.

The G100 agrees that in developing a principles-based disclosure framework it is important that the role and purpose of note disclosures as an integral component of the financial report is explicit. We consider that it is important to recognise that they are notes to the financial statements and not a vehicle for requiring disclosures on a range of matters not addressed in accounting standards.

While the importance of materiality is noted in paragraph 9(a) we believe that issues relating to the application of materiality should be given greater recognition. We agree with the focus on past transactions and the status of forward-looking information as discussed in paragraph 11(c).

Q2.2

Is the proposed definition of the purpose of the notes helpful in identifying relevant information that should be included in the notes? If not, how would you suggest it should be amended?

The G100 considers that the basis of the definition should be helpful. However, a major concern is the response of the auditors and regulators to directors and managers applying materiality to determine the extent of note disclosure.

Q3.1

In chapter 3, it is proposed to identify specific users' needs that the notes should fulfil. Those users' needs are drawn from the Conceptual Framework. It is also suggested that a Disclosure Framework should include indicators to assist the standard setters to decide when additional information is required to fulfil those users' needs.

- a. Is the description of the approach clear enough to be understandable? If not, what points are unclear?*
- b. If you do not support this approach, what alternative would you support and why?*
- c. Do you think that a category on 'information about the reporting entity as a whole' should be included? If so, why?*

The proposals outlined in Chapter 3 appear to be reasonable in eliciting relevant information about the entity, its operating performance and financial position. However, much of the general information is already provided elsewhere in the annual report and would add to be clutter in financial statements. The listing of 'items to be considered for disclosure' are of concern because they are likely to become regarded as 'in substance' requirements as they will be incorporated in the sets of model accounts of the major accounting firms. Our present experience is that the existence of these model accounts tends to be regarded as the default requirements whether or not they are relevant and material to the entity and are inconsistent with facilitating the exercise of judgement. As such, the G100 considers that they are best regarded as questions considered by the standard-setter in determining the core set of disclosures.

Q3.2

Are the proposed users' needs and indicators in chapter 3 helpful to identify in the DP? If not, what are your views about how risk and stewardship information that should be provided in the notes?

Q3.3

Do you agree with the way how risk and stewardship are addressed in the DP? If not, what are your views about how risk and stewardship information that should be provided in the notes?

The explanation of proposed user needs and indicators are helpful in understanding the basis of the approach adopted in the Discussion Paper. However, we consider that they are matters which are relevant for the standard-setter in applying the disclosure principles. The G100 is concerned that the breadth of user needs discussed includes disclosures which should be addressed elsewhere in the annual report such as the operating and financial review or management discussion and analysis (OFR).

The G100 believes that risk and stewardship should be addressed in the notes to the financial statements to the extent of the requirements in accounting standards and that if this information is incomplete appropriate cross referencing to the OFR or corporate governance report should be made in order to avoid duplication. Duplication in these and other areas would be minimised with appropriate co-ordination between different regulators.

Q3.4

Standard setters frequently mandate detailed disclosure requirements in each standard. In chapter 3, it is suggested that the way in which disclosures are established influences behaviours and alternative approaches are discussed. Do you think that standard setters should change their practice of mandating detailed disclosure requirements in each standard? If so, which of the alternative approaches discussed do you think will be the most effective in improving the quality of information in the notes?

The G100 strongly believes that a change in practice is highly desirable as explained in our response to Q1.1.

Q3.5

Some standard setters have established, or have proposed establishing, differential reporting regimes on the basis that a 'one size fits all' approach to disclosures is not appropriate. They consider that reporting requirements should be more proportionate, based on various characteristics such as entity size, or whether they relate to interim or annual financial statements? Do you think that establishing alternative disclosure requirements is appropriate?

Yes. The G100 agrees with this proposition in principle but has concerns about how and where the boundaries are drawn. For example, the G100 considers that entities operating and competing for capital in the same market should be subject to the same regulatory requirements in order that there is a level playing field. We believe that differential disclosure requirements are a matter for domestic legislators and regulators as they are best placed to understand the business and reporting environment in their jurisdiction.

Q4.1

Chapter 4 discusses the application of materiality to disclosures. Currently, IFRS state that an entity does not need to disclose information that is not material. Do you think that a Disclosure Framework should reinforce the application of materiality, for instance with a statement that states that immaterial information could reduce the understandability and relevance of disclosures?

The G100 strongly supports this approach. In the G100/PwC publication "Less is More" the G100 stressed that a significant part of the overload issue remains the expectations and behaviour of auditors and regulators. Audit firms produce so-called 'model accounts' and tend to expect them to be complied with in their dealings with clients. Directors and managers often find that the least costly and time consuming approach is to accede to the auditors' views, whether or not an item is material. In addition the litigious environment also induces directors and managers to disclose items that are not material.

The behaviour and actions of regulators and an inflexible approach of expecting all items in relevant accounting standards to be disclosed adds to this burden. The current practice relating to the disclosure of accounting policies reflects these approaches. For example, the G100 believes that the present disclosures of accounting policies are not helpful to users of financial statements because they are voluminous, tend to restate the requirements of accounting standards and do not often clearly identify where accounting policy choices have been made. We consider that much of the present content could be provided on a company's website.

The accounting policy note should state compliance with the set of accounting standards applied, say IFRS or US GAAP, and focus on key factors such as the choices between alternatives permitted in accounting standards, changes in accounting policies and industry-specific approaches not dealt with in accounting standards.

Q4.2

Chapter 4 also includes proposed guidance to assist in the application of materiality. Do you think that a Disclosure Framework should include guidance for applying materiality? If you disagree, please provide your reasoning.

Yes. The proposed disclosure framework and approach to disclosures in accounting standards should be more explicit in giving directors and management greater licence to exercise judgement as to which disclosures are relevant and material to the entity, its shareholders and other users. Since materiality has both quantitative and qualitative dimensions and different users ascribe different meanings as to what constitutes materiality for their purposes it is important that directors and management are able to exercise judgement.

Q4.3

Is the description of the approach clear enough to be useful to improving the application of materiality? If not, what points are unclear or what alternatives would you suggest?

The G100 believes that guidance on the application of materiality is extremely useful to directors and managers in exercising their professional judgment. It would also be useful in informing auditors and regulators that a 'one-size-fits-all' approach is not appropriate and that the exercise of judgment may result in different outcomes and disclosure of different types of items, a consequence of which may be a loss of comparability. As with the provision of other indicators and examples there is the risk that, in practice, they will be regarded as requirements.

Q5.1

Chapter 5 includes proposals for improving the way disclosures are communicated and organised. Would the proposed communication principles improve the effectiveness of disclosures in the notes? What other possibilities should be considered?

Q5.2

Do any of the suggested methods of organising the notes improve the effectiveness of disclosures? Are there different ways to organise the disclosures that you would support?

The G100 believes that flexibility in presentation of the notes and more consideration given to the readability of the content would contribute to aiding the understanding by shareholders and other users.

Adoption or extension of approaches to the formatting and presentation would be helpful. In addition, the existence of a disclosure framework may induce standard setters to take a more holistic approach to disclosures rather than one based on each standard being considered in isolation.

The suggestions made in Chapter 5 in relation to format would improve the effectiveness of the communication but would rely on directors and management having more freedom to exercise judgement.

The G100 does not have any particular preferences for the order in which the notes are presented. While specifying an order may have its attractions in enabling users to locate particular notes, this is readily achieved with the inclusion of an index. We believe that the directors and management should have the flexibility to determine the format and organisation of the notes which, in their judgement, best meets the needs of shareholders and other users.

Q6.1

Are there any other issues that you think need to be addressed to improve the quality of information reported in the notes to the financial statements? Please explain how you think these issues should be addressed and by whom.

CONCLUSION

As indicated in the G100/PwC publication "*Less is More*", reducing the volume, detail and complexity of the notes to the financial statements addresses one dimension of the problem. Perhaps of more significance, and which will be more difficult to achieve, is the need to achieve cultural change on the part of the directors and management, auditors and regulators as well as the belief by analysts that more information must be better.

The G100 believes that the application of a disclosure framework based on disclosure principles in conjunction with a concerted effort for cultural change by all key stakeholders will assist in driving enhanced quality and usefulness of financial statements to end users.

Yours sincerely
Group of 100 Inc



Terry Bowen
President