

European Financial Reporting Advisory Group ■



Joint Outreach Event
Amsterdam
27 November 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, Amsterdam, 27 November 2012

EFRAG and the Dutch Accounting Standards Board (DASB, Raad voor de Jaarverslaggeving), organised a joint outreach event, held in Amsterdam on 27 November 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.

Hans de Munnik, DASB Chair hosted the event. Hans Schoen, EFRAG TEG member, gave a summary of EFRAG's 2012 outreach events and the latest progress of IFRS developments, EFRAG positions and activities.

Larry Smith, FASB Board member and Kristy Robinson, IASB also attended the event and gave their input.

Summary of contents

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2. Purpose of this feedback statement and details of attendees
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 1. Introduction to the discussion paper
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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.

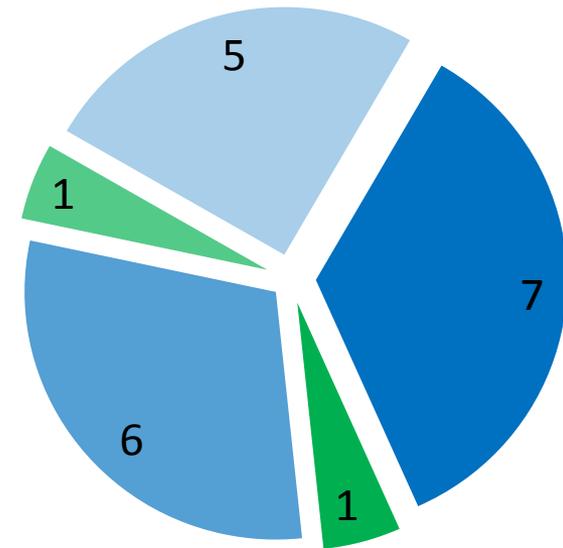
This feedback statement has been prepared by the EFRAG secretariat for the convenience of constituents. The content of the report has not been subject to review or discussion by the EFRAG Technical Expert Group.

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 and business associations
- Academics
- Standard Setters
- User
- Auditors

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, explaining each of the key principles identified above.

FASB Board Member Larry Smith explained the interaction with developments in the US and the FASB's paper.

IASB Technical Principal Kristy Robinson took part, explaining the IASB's view on the subject and the IASB's plans.

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
General discussion	There was indeed a disclosure issue (mainly overload) and an approach based on all but only material information disclosure was a good idea. This disclosure issue was not simply a standard setter problem, but also linked to regulators/enforcers and auditors. A disclosure framework would be helpful.
Standard Setter	Although the EFRAG/ANC/FRC DP and the FASB paper had a number of differences, content-wise they were close, including the scope of the projects. Yet, specifically in the US, US GAAP changes could impact SEC filing requirements. This also explains the FASB paper having a chapter relating to interim reporting.
Academic	It is appropriate to express upfront the working assumptions. Consideration should be given to whether financial statements should be able to be read in isolation.
Standard Setter	Despite the different national regimes, the fact that in Europe there is one ultimate law maker issuing EU Directives should be taken into account at framework level. This Discussion Paper should be directed also at the European Parliament, as it may be relevant for the new Accounting Directive.

Setting the requirements

Summary of feedback received from constituents on setting the requirements

Constituent	Comment
Standard Setter	It is hard to draw the line where users' needs in terms of stewardship information should be considered when drafting standard requirements for the notes.
Standard Setter	Discussion on placement, including around the different types of risk disclosures, is a purely hypothetical discussion in a web-based environment.
Auditor	There should be a wider discussion on risk disclosures, discussing what should be included in the notes. Risk disclosures need to take into account not only downside but also upsides.
Auditor	The financial statements boundary should be more respected in the sense that too often what was deemed relevant for financial reporting tended to be automatically included in financial statements. This trend should be rigorously rejected.
Auditor	If the purpose of the notes is to assist users in projecting future cash flows, then the role of stewardship should be analysed. The interrelationship appeared rather complex.
Auditor	Was the purpose of the proactive project to get to an European perspective on the next steps? Standard setters appear close in their positions, except possibly for risk disclosures.
User	It is hard to set the frontiers in what should be disclosed to users. One example is an airline company hedging both oil price changes and foreign currency impacts; users would want to understand to what extent the entity was able to transfer the cost of hedging to the final customer, as well as how many months were hedged forward or how much trading activities were allowed. Users want to understand the reasons why the entity is hedging the risk.
User	The discussion was often about how requirements should be set but the real question was why? Attention should be given to initiatives such as integrated reporting.

Different approaches and differential disclosure regimes

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

Constituent	Comment
User	Differentiated disclosures per industries and sectors would reduce the users of financial statements to a few specialists. It could increase the cost of digging into numbers for non-specialists.
User	Some entities operate across sectors which would be an issue if standard setters wrote industry-based requirements.
User	Information on websites possibly draws more attention, but users still make extensive use of quarterly and annual financial statements. Some companies are hesitant to answer questions from users on the content of the notes.
Regulator	Replacing 'an entity shall disclose' with 'an entity may disclose' would create an enforceability issue. There is already room for eliminating immaterial information in the current regime.
Standard Setter	In the US the use of 'may' would provoke changes. Regulators claim that they usually do not question when disclosures are reduced.
Preparer	The internet provides a way to assess which information is considered most or less interesting.
Preparer	IFRS should have principles based frameworks, rules based requirements should be avoided.

Applying the requirements

Summary of feedback received from constituents on applying the requirements

Constituent	Comment
Preparer	Risk disclosures entail different types of disclosures, from exposures to risk profiles or appetite. When management's view is required the boundary between notes and management commentary is blurred. Lengthy risk disclosures could therefore better be placed outside the notes.
Preparer	Currently voluntary disclosures are limited, but they would increase with less requirements. Standard setters should provide the right incentive to disclose on a voluntary basis.
Preparer	A note explaining how entities applied materiality could be welcomed. Users should be knowledgeable and financial statements should not be expected to be read in isolation. The use of cross references should be allowed.
Auditor	More guidance on materiality is not needed. The question is not judging materiality, but being allowed to apply judgment. Otherwise notes become a compliance exercise.
Auditor	The application of requirements and definitions are not the same everywhere including the notion of 'true and fair' view. This was implying a clear need for definition.
Auditor	The risk of litigation in certain jurisdictions (the US as a particular example) makes it difficult to omit requirements.
User	Accounting policies should be reduced to focus only on entity specific information. The real problem is getting a negative feedback from the regulators, who can ask to disclose missing information via a press release. Regulators should enable more condensed disclosures as, in the Netherlands, users, auditors and regulators are not so far apart compared to other parts of Europe. If application is important, it should be considered that preparers apply their judgement not only at the level of the notes but try to optimise disclosures in the context of the whole financial report.
Regulator	Entities should not use materiality as a way to defer disclosure of information. More consistency is desirable. There have been cases where an entity keeps disclosing an accounting policy for discontinued operations, but there is no amount in the statements.

Communicating information

Summary of feedback received from constituents on communicating information

Constituent	Comment
General discussion	Communication is not the major issue for this project. Entities look at each other and develop best practices.
Preparer	Notes explain the past whereas communication in the management commentary is more flexible. There is merit in focusing on key messages in the notes. Documents prepared by Investor Relations are different to financial statements in many ways, and it was difficult to combine them with the notes.
Preparer	Financial statements are meant for the knowledgeable investor. The use of jargon does not help.
Auditor	Users consider information in the financial statements less biased than information prepared by Investor Relations. Notes are also an area of communication and would benefit from being more focused (e.g. on new, or optional accounting policies).
Auditor	Some flexibility in ordering information is welcome. XBRL can be a challenge (e.g. the ability to align and reconcile with Pillar III information) and even a threat (in case of confusion in the definition of the taxonomy).
User	Entities should consistently apply to the notes the same numbering as used in the primary financial statements.
User	IFRS has less flexibility than local requirements but unless there is standardisation, models are welcome. A move from providing data to information is also positive. There is no desire for forcing uniformity on information presented on paper, but the ability to easily identify key messages is welcome, such as how close is the entity to break financial covenants.