

## Minutes of TVSCA TAC 3/9/12

EFRAG Towards a Disclosure Framework for the Notes

### Question 1.1

Agree in broad terms with the key principles. Think there is potential benefit in a layered approach (see later answer), taking advantage of technology to present information in a different, more accessible way, as well as addressing the points in the paper

### Question 1.2

Agree

### Question 2.1

Yes, it is necessary to define the purpose of the notes.

### Question 2.2

Yes, it is helpful.

### Question 3.1

Identifying users' needs is important, but there a wide variety of potential users and sometimes this leads to differences in views of materiality and the requirement for inclusion of certain information within the notes. For example, at present related party transactions are in some cases required to be disclosed when material to the individual rather than the entity. This makes it very hard to specify an approach that will work across all notes.

A layered approach where core information likely to be of interest to all users is identified, with maybe optional disclosure of information of interest to a minority, might help avoid confusion, but probably only if done on an online basis, so you could avoid seeing the optional information if you wished.

### Question 3.2

Not answered

### Question 3.3

Information on risk and stewardship should be addressed, but there is an issue with entities not wanting to disclose sensitive information that users may wish to see. Also, it is often the case that risks of a negative kind are focussed upon and opportunities (or positive risks) are not discussed, for fear that expectations are raised too high. Some requirements need to be set out to ensure that information that an entity may want to keep secret is disclosed where it is considered a requirement for true and fair accounts. This may need more than a framework of principles, although it is possible that such requirements could be established within a framework if it is carefully worded.

#### Question 3.4

Standard setters should be changing their approach to disclosures, which are far too detailed in many cases to be useful. Not even accountants want, need or arguably understand the extensive disclosures in IFRS/IAS on share based payments, financial instruments and some other areas (groups for example).

#### Question 3.5

If the framework and emphasis on materiality in disclosures is correct there should be little need for a differential reporting regime. If activities are simple, they will require less disclosure, but if for instance a small entity enters into complex financial instrument disclosures it is right that they should disclose these activities in sufficient detail for readers to gain a proper understanding of them.

#### Question 4.1

Yes, we believe that a disclosure framework should reinforce the application of materiality. It is vital that preparers and auditors are encouraged, enabled and/or required to consider material carefully in providing disclosures.

#### Question 4.2

The current proliferation of notes is often effectively encouraged by the lack of a clear view of what materiality is and therefore what should be disclosed. If some things are material in nature (e.g. directors' emoluments) there can be a tendency for preparers and auditors to regard the safest route as being one where all disclosures are regarded as material and so given in the notes. Guidance within the framework could highlight that notes are material if they are required to meet the objectives. For instance, if a user would be misled by not knowing about a particularly unusual, though relatively small transaction, then this might still be regarded as material. Alternatively, a decision could be taken that things can only be material if they are large enough to really impact the company performance, so the view that a transaction with a related party could be disclosable if material to the individual could be removed from the concept of materiality. Whichever way is chosen, further guidance on the application of materiality is almost certainly required to ensure that disclosures are not given just to be on the safe side.

#### Question 5.1

Yes, the proposed communication principles improve the effectiveness of disclosures.

#### Question 5.2

In addition to the considerations set out in the paper, making use of technology to assist in highlighting more versus less important information, or that of interest to all, versus that of interest to a few could be made. Many organisations already publish their financial statements online and with appropriate technology, for instance the use of XBRL tagging together with filtering tools you could create a view of the accounts which provides the opportunity to drill down.

For instance, the primary statements are the only initial pages seen, together with an overview of the entity perhaps (this is level 1). If you are trying to understand the accounts further you might then “click” on turnover and this would take you to the level 2 note, which would provide information for example, on the accounting policy for turnover, the segment information and any other key bits of information. In some cases, there may also be a level 3 analysis, which the company chooses to provide but is not mandatory perhaps. This might be a diagram/s of how turnover has arisen (although maybe this could be used at level 2 if it still conveyed the necessary information. Level three could also be used for information that certain pressure groups or specialists etc might want to see but that are unlikely to be of interest to the majority.

The entity could make decisions about what is material by looking at it from the viewpoint of “of interest and influence to the majority of users” (Level 1 and 2) and “of interest and influence to the minority of users” level 3. Over time things might move from one group to another. For example information on certain aspects of sustainability might go from level 3 to level 2 as more people become interested.

The basis of this approach is a click through for more detail, meaning that it is more difficult to hide the true situation among lots of disclosures displayed together.

If anything is absolutely core to an understanding of what is happening within an entity it should be level one and therefore appear in the primary statements or “notes” at a primary statement level.

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