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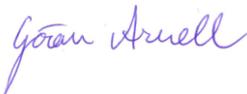
Towards a Disclosure Framework for the Notes

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the discussion paper (DP) *Towards a Disclosure Framework for the Notes*.

FAR welcomes EFRAG's initiative in this issue as part of EFRAG's PAINE activities. The responses to the specific questions for respondents are set out in the appendix to this cover letter. FAR highlights below some of the broader issues underlying FAR's responses to the specific questions raised in the DP:

- The scope is too narrow to effectively address how to satisfy users' needs
- FAR believes that the indicators proposed in the DP for identifying user needs and assessment of materiality may have an effect contrary to the intended, i.e. may confirm current practice or even increase the total amount of disclosures.

FAR

A handwritten signature in blue ink that reads 'Göran Arnell'.

Göran Arnell
Chairman FAR's Accounting Practice Committee



Appendix

Responses to the questions in the discussion paper Disclosure Framework for the Notes

Question 1.1 – Key principles

The DP sets out a number of key principles that should underpin a Disclosure Framework.

Do you agree with these key principles? If not, what alternative principles would you propose?

Yes, FAR agrees on these general principles.

However, as is discussed in FAR's comments to questions 2.1 and 2.2 FAR is not convinced about the scope of the key principles regarding "purpose and content of the notes". Also, the principles of "setting disclosure requirements" are not clear when it comes to the desired approach that standard setters should use and the scope of the disclosure requirements. See FAR's comments to questions 3.1-3.5.

Question 1.2 – Understanding the problem

This DP suggests 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 ineffective application of materiality in the financial statements.*
- b) enhancing how disclosures are organized and communicated in the financial statements.*

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

Yes, FAR agrees that any discussion about changes to improve the disclosure regime will involve both the disclosure requirements themselves and the practice of their implementation. However, FAR has concerns that uncertainty in recognition and measurement requirements in complex transactions or valuations like fair value measurements in the absence of active markets identical items and impairment testing of goodwill, defined benefit pension plans, is compensated by extensive disclosure requirements. FAR understands the difficulties and that subjectivity and measurement uncertainty will always be present and with that follows the need for disclosures due to that fact.

Question 2.1

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.

FAR's comments to 2.1 and 2.2

Yes, FAR believes that there is a need to define the purpose of the notes. However, FAR is concerned with treating notes information separate from other parts and concerns of the financial statements. If only information about the specific line items in the P&L and B/S are treated in the notes a user would lack a general idea about the business that is reported. FAR would suggest that a definition also includes a perspective of a “top down” approach instead of starting at a detailed level of line items.

Many jurisdictions require through law or local GAAP that some form of Management Discussion and Analysis is prepared and presented in the same documents as the financial statements under IFRS. Such a MD&A would in many cases incorporate discussions about the purpose of the reporting entity, its business, stewardship, operational risks, perhaps financial risks (similar to parts of IFRS 7), and other areas which are not directly tied in to areas covered in the definition presented in chapter 2 of the DP. Without such information FAR believes that the financial statements would be less comprehensible and understandable. FAR does not believe that the notes can be treated as an isolated phenomenon. An entity preparing financial statements under IFRS without the requirements of a local MD&A would hardly give full relevant information to a user. In such a case we believe that the notes also need to provide information that is not directly related to separate line items in the financial statements. Thus, the discussion in chapter 3 about other categories of user needs must feed in to the final definition of the purpose of the notes.

Question 2.2

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?

See FAR's answer to question 2.1

Question 3.1

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?

Yes, FAR agrees that it is appropriate to derive the objective and the content from the overall objective of financial reporting as set out in the Conceptual Framework. This Conceptual Framework does not currently specifically address notes information.

FAR is not convinced that the proposed indicators should be important to determine the boundary of information to be provided in the notes to the financial statements as opposed

to other parts of a company's financial reporting and communication strategies. FAR would however like to note that for some jurisdictions, this boundary is one between audited and unaudited information.

The approach starting with the matrix tables on pp. 34 and 35 in chapter 3 of the DP is not clear cut. Should the categories and indicators in these tables be used by standard setters in order to decide what disclosure requirements they should include in future standards (and in already present standards)? How would that be done in practice? It seems more to FAR that the tables would be of use for a preparer as a guide to decide when and to what extent disclosures should be provided.

As regards question c) please refer to FAR's comments to question 2.1 and 2.2 above and 3.3 and 3.4 below.

Question 3.2

Are the proposed users' needs and indicators in chapter 3 helpful to identify relevant information? If not, how would you suggest amending them, or what other basis would you suggest to identify relevant information to be included in the notes?

See FAR's response to question 3.1.

Question 3.3

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

FAR is of the opinion, as expressed above in previous answers, that risk and stewardship are important areas that need to be captured in the scope of the purpose of the notes. FAR strongly believes that stewardship is a relevant area to be addressed in the disclosures of a company even though that subject matter may not be directly linked to specific line items in the P&L and the B/S. The same idea is relevant for the area of risks, both operational and financial.

Finally, in chapter 3, in paragraph 24 at page 32, disclosures on related parties, is said to be closely linked to the notion of stewardship. FAR does not find that linkage very close. FAR believes that related parties should be a category of its own.

Question 3.4

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 most effective in improving the quality of information in the notes?

FAR thinks that this is an area that needs considerable investigation and might depend on the sort of disclosures sought after and also what the specific matter at hand is. It is possible that the solution to this issue is to have a mixture of standard by standard

disclosures in combination with a specific disclosure standard. However, FAR would assume that in a standard by standard solution each standard would include a guiding principle that treats the concept of materiality and also the ideas found in chapter 3 on pages 34 and 35 in order to guide the preparer and enforcers as to the level of detail and numbers of disclosures to provide. In a specific disclosure standard the framework of how to treat disclosures would be included as a guide to the preparer. But, as stated initially, FAR thinks that this area needs considerable effort in further development before a conclusion can be drawn.

Audit and confirmation of provided disclosures including assessment of what further disclosures that would be needed, will become harder the more we move towards strong preparer disclosure discretion. FAR is concerned that preparer discretion and general disclosure requirements will give rise to preparer and auditor uncertainty in what is deemed to be satisfactory provision of disclosures. FAR is also concerned that enforcement by regulators may be much more difficult the more discretion on disclosure are placed on the preparers, which will also give rise to uncertainty with preparers and auditors on what is required for compliant disclosures.

Similarly, FAR is concerned that lack of requirements may be filled by other constituents taking the opportunity to provide standards or guidance alongside IASB's disclosure requirements, including the big accounting firms.

FAR is opposed to industry level prescriptions except in certain urgent cases. Experiences from industry requirements in US GAAP are discouraging. Industry specific requirements increase the risk for inconsistencies between standards and lack of comparability between entities.

FAR believes that disclosure requirements should be gathered in one single disclosure standard (similar approach as in IFRS 12). This would promote better overview of the disclosure requirements and a stimulus to balance the requirements in different areas avoiding disproportionate requirements in some areas.

Finally, FAR believes that smaller listed companies would find it more difficult to apply less detailed disclosure requirements. Smaller listed companies would rather benefit of applying only relevant disclosure requirements in combination with the materiality concept.

Question 3.5

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 entity size, or whether they relate to interim or annual financial statements.

Do you think that establishing alternative disclosure requirements is appropriate?

No, FAR is of the opinion that with the proper application of materiality this will not be necessary.

Question 4.1

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?

Yes, FAR thinks that the proposed statement would be appropriate. This would support a more appropriate application of materiality reflecting a commonly neglected part of relevance and understandability.

Question 4.2

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.

No, FAR is not convinced that there is a need for more guidance or clarification in this respect. On the basis that IFRS is principle based FAR believes that the concept of materiality also is principle based. IFRS contains frequent and consistent guidance regarding materiality. Therefore FAR believes that preparers, auditors, users and accounting enforcers have the ability from current IFRS to receive considerable guidance which would enable them to understand the concept of materiality. Instead, FAR believes that the proper application of the materiality principle should be reinforced.

If further guidance on materiality would be issued, it should be principle based. FAR is of the opinion that the quantitative analysis of the materiality of an item could not be determined solely by a simple quantitative comparison to primary statement totals such as profit for the period. FAR believes that facts and circumstances in each individual case have to be considered together with the quantitative analysis.

Question 4.3

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?

Yes, FAR agrees with the DP's identification of problems causing inappropriate application of the materiality concept from a user perspective. However, FAR is not convinced that application of materiality would benefit from an extensive list presented on pages 52 – 53 based on "Relevant information indicators" from chapter 3. The list is far too comprehensive and detailed to represent an effective principle based approach.

Some detailed comments: FAR believes there is a need for an in depth definition of "item". The detail of items in the primary financial statements varies among companies. FAR agrees with the principles of the decision tree in chapter 4 p 12, but as regards items, aggregations may be appropriate in several iterations. Also, the need for any disaggregation is not dealt with in the decision tree.



Question 5.1

Chapter 5 includes proposals for improving the way disclosures are communicated and organized.

Would the proposed communication principles improve effectiveness of disclosures in the notes? What other possibilities should be considered?

Yes, FAR supports the proposed communication principles, with the exception of the DP's proposal of organizing the notes in order of priority. FAR believes that frequent changes of the order of the notes may make the notes harder to follow over time for the users and may demand a lot of work by the preparers without equivalent benefits for users.

Question 5.2

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

See FAR's comments to question 5.1 above.

Question 6.1

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?

FAR believes that a top down approach starting with the entity's business and operations would further enhance why the notes are important and to what extent they are needed. Following a top down approach it would be clearer to what extent further information for each item in the B/S and the P&L are needed. Refer to our answers to questions 2.1 and 2.2.