

 **EFRAG**

European Financial Reporting Advisory Group ■

Rådet **för**
finansiell rapportering

Joint Outreach Event

Stockholm
28 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, Stockholm, 28 November 2012

EFRAG and the Swedish Financial Reporting Board (SFRB), organised a joint outreach event, held in Stockholm on 28 November 2012, for constituents to debate and feedback on the EFRAG/ANC/FRC discussion paper *Toward a Disclosure Framework for the Notes* with an aim to eventually influence and provide input to the IASB on their envisaged disclosure framework project.

Claes Janzon, Executive Member of the Swedish Financial Reporting Board (SFRB), hosted the event. Nicklas Grip, EFRAG TEG member participated in the event.

Summary of contents

1. Introduction and outline
2. Purpose of the 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

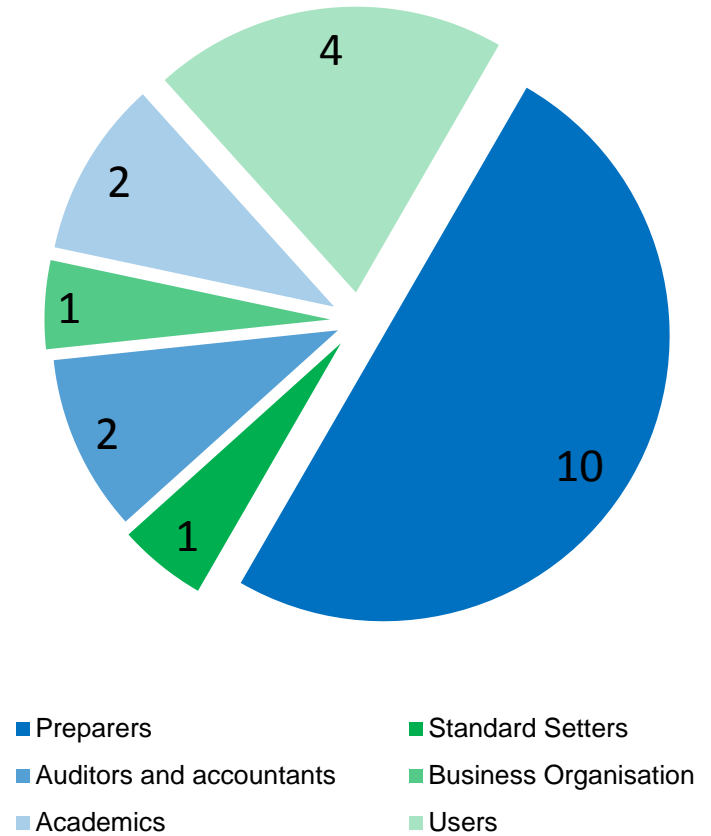
This feedback statement has been prepared to summarise the messages received from constituents at the outreach event and will be considered by EFRAG/ANC/FRC when deciding future steps for the project.

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.

Number by background



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:

- identify what disclosures are relevant for the notes to the financial statements;
- discuss what materiality means from a disclosure perspective; and
- 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 closes on 31 December. Please send comments to commentletters@efrag.org.

Key principles in the discussion paper

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

- Purpose and content of the notes;
- Setting disclosure requirements;
- Applying the requirements; and
- 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.

Robert Gärtner from Handelsbanken and Mikael Hagström from Volvo provided preliminary remarks from a user's and preparer's perspective respectively.

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
Auditor	The Discussion Paper focused on relevance but seemed to ignore the 'faithful representation' notion. Considering faithful representation could have led to the identification of different categories and/or indicators,
User	Equity analysts do not generally believe in one size fits all solution to current disclosures issues. Yet here is a divergence of views where preparers view users as always demanding more disclosures, while users claim to be drowned by information. This calls for a principles-based disclosure framework.
Preparer	Usually preparers are tempted to 'roll forward' previous disclosures because of time pressure; this is the quickest approach. If the objective is to provide trusted information and communicate more effectively it is important to assess who are the target groups. Management commentary and broader corporate reporting are broader views that should be aligned and optimized with the notes. Key Principle number 3 in the Discussion Paper is too large and leaves too much room to add requirements.
User	The length of the notes is not a real issue. The issue is about the length of annual reports as a whole.

Setting the requirements

Summary of feedback received from constituents on setting the requirements

Constituent	Comment
User	There is inadequate information about the funding and liquidity of banks whereas example exist like regulatory Pillar III disclosures since Basel II. More disclosures are needed to avoid window dressing. Disclosures that refer to a single point in time need to be used with a lot of caution.
Auditor	Measurement uncertainty should be part of the notes. Preparers do not like to provide open-disclosures, for instance on risks and thus requirements are welcomed to complement principles.
User	Risk disclosures are most difficult to understand when used to judge the company's use of assets and assess the performance and stewardship. Most risk disclosures should be included in the notes to the financial statements. When preparers use conservative assumptions, in some cases they will provide additional disclosures on a voluntary basis to evidence this, giving the supporting rationale for these assumptions.
User	The framework should allow for the right amount of flexibility and not rely exclusively on market pressure to force appropriate disclosures. More judgment based on sufficient guidance and a combination of objectives and principles with clear requirements would work best and is the way forward to apply the requirements. However, comparability should not be overlooked; this is important for users that compare a large number of entities.
Preparer	Notes based on high level principles may be too theoretical and not very useful or can prove confusing or complex. The discount rates information falls often in this category. Older IFRS requested limited information (for example a simple roll forward for PPE) but newer standards tend to be much more granular.
Preparer	Sometimes the complexity of accounting drives the complexity of notes. If IFRS allowed amortisation of goodwill, there would be less need for lengthy disclosures on impairment.
Academic	Guidance is key and the IASB should provide it in pronouncements, rather than overhaul the principles in the Conceptual Framework.

Different approaches and differential disclosure regimes

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

Constituent	Comment
Auditor	It is not clear how differential regimes would satisfy users' needs, and how to benchmark the results. It is important to look for pragmatic solutions.
User	Only 5% of analysts' time is spent on reading and interpreting financial statements. This calls for changes and requirements such as those in the standards for the calculation of financial ratios which could be useful; these require to provide guidance on future developments in accounting standards. Users try to understand deviations from trends. Interim reports are more timely and provide more synthesis. Areas where more information would be welcome include segment information, debt structure, sensitivity analysis for financial instruments, pensions, leases (for retail, airlines, etc.) revenue and impairment of assets.
User	<p>Analysts would welcome a framework to help them understand the objectives and principles of disclosures as very few are IFRS specialists. Notes in financial statements are a cornerstone the first time an analyst covers one issuer but hereafter, they are used to understand specific events. When the financial crisis started, analysts focused on liquidity positions.</p> <p>Reports in Sweden are not very long (frequently around 100 to 200 pages of which 15 to 50% for the notes) but the number and length of disclosures tend to be repeated over time. This may show a lack of focus. It is also very unhelpful when information is missing or outdated (mostly about acquisition).</p>

Applying the requirements

Summary of feedback received from constituents on applying the requirements

Constituent	Comment
Preparer	In Sweden there is an informal protocol between large preparers and their auditors to agree on the best presentation for developments in disclosures. Usually reports prepared under local GAAP are less extensive compared to neighboring countries such as Germany.
Preparer	Auditors have their disclosure checklists, and regulators have even larger ones. Greater flexibility would allow to achieve more entity-specific disclosures. Auditors in some cases push for strict compliance.
Preparer	A choice was made to drop checklists; rather they reference to IFRS requirements to document how conclusions were reached on grey zones. The regulator did not really challenge the choices and supported the activity of the disclosures committee created as part of the implementation of processes to comply with section 404 of the Sarbanes-Oxley act.
Preparer	A principles-based framework would be useful to identify a core set of requirements that should be applied in all reports, including interim periods. In the mean time if IASB were to send a letter or make a public statement, this could help to change the perception of how to apply materiality to disclosures. Auditors and regulators should also contribute to change behaviours.
Auditor	To assess materiality of information, a good test is to see whether its omission makes the whole picture difficult to understand.
User	Some balance is needed between full flexibility which would be scary for users and fully standardised information. The dialogue between preparers and analysts is very important. Self regulation is more productive than detailed disclosures requirements. It is a question of establishing trust via the financial report.

Communicating information

Summary of feedback received from constituents on communicating information

Constituent	Comment
Preparer	The note on accounting policies is driven by auditors. In the annual report, accounting principles are not grouped at the start, but presented within the specific note. Tables, graphs and links are used to help present the qualitative information with more quantitative data. References and headlines are examples of best communication practices. The impact of XBRL will be important; in the future information may be presented on a portal, with the possibility to drill down at the level required.
Preparer	Information disclosed should be also used internally. If this is not the case, it may mean that this is not material.
User	The best way to get quick wins is sharing best practices amid peer groups, including the application of materiality. There is still a lot of divergence in disclosures and this is not explained by regulatory constraints. The size of reports is not really an issue although the in areas such as pensions, employee benefits or financial instruments some reduction could be achieved.