



European Financial Reporting Advisory Group ■



Joint Outreach Event

Developing a Disclosure Framework
London - 31 October 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, London, 31 October

The ICAEW Financial Reporting Discussion Group hosted EFRAG and the FRC at a joint outreach event in London on the discussion paper *Towards a Disclosure Framework for the Notes*, issued by EFRAG, the French Autorité des Normes Comptables (ANC) and the FRC. The FRC supplementary discussion paper *Thinking About Disclosures in a Broader Context* was also presented and discussed.

Financial Reporting Discussion Group

The Financial Reporting Discussion Group is part of the London Society of Chartered Accountants and hosts monthly discussions on financial reporting issues, including company law and accounting. For more information, please see the society's page on the [ICAEW website](#).

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

Information to be considered together with this document

To view information related to EFRAG/ANC/FRC discussion paper please access EFRAG's [project webpage](#). The comment period closes on 31 December. Please send comments to commentletters@efrag.org

The FRC supplementary discussion paper is available from the [FRC website](#) and sets a road map for a disclosure framework encompassing all components of financial reporting.



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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.

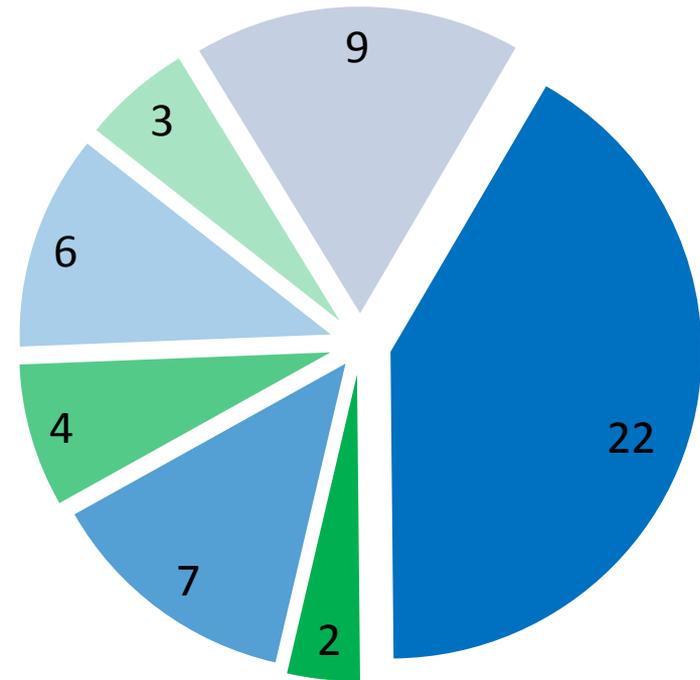
This feedback statement has been prepared by the EFRAG and FRC secretariat for the convenience of constituents. The content of the report has not been subject to review or discussion by the EFRAG Technical Expert Group or by the FRC Accounting Council.

Participants

Participants have extensive experience with IFRS and most were currently involved at a senior level.

A breakdown of participants is presented opposite.

Number by background



- Auditors
- Regulators and Standard Setters
- Preparers and Business Associations
- Other
- Academics
- Accounting Bodies
- Analysts and Users

Towards a Disclosure Framework for the Notes



In July 2012 EFRAG, in partnership with the ANC and the 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.

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

The Discussion Papers

FRC Director Roger Marshall, EFRAG Senior Project Manager Filippo Poli and FRC Project Director Deepa Raval set out the motivations behind the discussion papers and what they saw as future directions.

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.

Summary of feedback received from constituents



| Area | Comment |
|---|--|
| Is there excess baggage and how long will it take to fix? | It is still not clear whether the problem is caused by excessive requirements in standards or by companies disclosing immaterial information (doing too much). |
| | Sell side analysts are in many ways ‘free-riders’ on companies and investors, and perhaps their requests for ever-increasing levels of disclosure should be challenged by the owners of companies. |
| | Perhaps it is time to consider there being three sets of financial statements with different layers of disclosures. Something akin to the preliminary announcement which contains highlights only, the full financial statements and a middle set that contains limited disclosures. |
| | Was the notion of asking for the inclusion of a rule of ‘add one disclosure, remove one disclosure’ considered by the authors of the discussion papers? Perhaps an answer to the overload is to limit the length of disclosures to thirty pages. If there is not room in that section for a disclosure, there it must not be important enough to disclose. |
| | The creation of an effective framework is a long-term project, but the context is already being thought about when new standards are developed. |
| | Users always want more information because of their lack of confidence in management. It is also important to strike a balance between narrative discussion and tables. A by-product of better disclosures will be a cut in clutter. |
| | The FRC paper was more accessible as it focused on materiality. Perhaps relevance may be more a more confusing basis for preparers/auditors to base their decisions on. Instead of a prohibition on immaterial disclosures, perhaps it should be the role of regulators to challenge them. |

Summary of feedback received from constituents



| Area | Comment |
|--|---|
| <p>Are there any short-term changes that could be made as quick fixes?</p> | <p>What IAS 1 <i>Presentation of Financial Statements</i> says about materiality should be reinforced.</p> |
| | <p>The thought process leading to better disclosures is more important than removing any particular disclosures.</p> |
| | <p>Perhaps a change could be made in changing 'must' to 'should consider' in the standards.</p> |
| | <p>A move in standards towards stressing why information should be disclosed rather than what. It is also clear that people do not take proper notice of IAS 1.</p> |
| | <p>There is a cultural problem, and a consensus has formed on what is required. This has resulted in a focus on checklists. In order to keep track of whether checklists have been completed, another checklist is now required.</p> |
| | <p>The two discussion papers were thought provoking, and it is clear that more is required than just focusing on standards. It is clear that users look at disclosures for analysing predicted cashflows.</p> |
| | <p>It is important that the importance of regulators is not underestimated, and on that basis it is important that disclosures are defined.</p> |
| | <p>A disclosure framework is needed, but regulators have been pushed into a corner. It is easier to monitor under- rather than over-disclosure. With respect to materiality, sometimes it is important to explain why a number is zero.</p> |
| | <p>If part of the problem is of changing the checklist mentality, then perhaps the answer would be for checklists to incorporate an extra question regarding each disclosure – 'is it material'?</p> |
| | <p>As a regulator, one would never ask an entity to disclose something that is not material.</p> |
| <p>Perhaps the development of a disclosure framework could be linked with 'core' or pro-forma earnings, and that more disclosure should be required about those.</p> | |
| <p>Perhaps a partial solution would be to repeat the message from IAS 1 in each standard, adding 'if material' to all disclosure requirements.</p> | |

Summary of feedback received from constituents



| Area | Comment |
|--|---|
| Differences to the FASB paper | <p>The FASB chose to focus on cash flows, but there is an important link in IFRS to the conceptual framework which makes it clear that the financial statements can-not be expected to provide everything.</p> <p>Financial statements are not just about cash flows, they are also about stewardship.</p> |
| Could disclosure requirements be met by disclosure other than in the financial statements? | <p>It is not clear whether information contained on websites and not in financial statements is useful.</p> <p>In relation to the discussions on aspects of materiality, it is important that this is viewed not only based on the number that more information is being disclosed about, but also in the context of disclosures.</p> |