BANK · VERSICHERUNG

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EFRAG - Discussion Paper „Towards a Disclosure Framework for the Notes“

We would like to respond as follows to the above stated Discussion Paper:

- The scope of notes is growing on account of the ever increasing (quantitative) requirements without substantially improving the quality of the information provided. At the same time, the effort entities need to put into the production of the data is growing. Hence, we welcome efforts to explore various possibilities of upgrading and improving the effectiveness of the notes.

  We endorse the key points put forward by the Discussion Paper, i.e. the principled approach and the strengthening of materiality, and attach particular importance to the materiality principle.

Question 1.1 – Key Principles

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

EFRAG sets out a number of key principles to underpin the development of a disclosure framework. These basic features should be included by an effective disclosure framework.

1. **General objective:**
   To ensure that **all essential information** and **no inessential information is adequately disclosed** and important information is prevented from being lost in an abundance of detailed data.

2. **Purpose and content of the notes:**
   The purpose of the notes is to provide a **relevant description of the items presented in the financial statements** and of **unrecognised arrangement, rights and obligations at the reporting date**.
   In other words, the notes should

   - explain and supplement the items in the balance sheet and profit and loss,
   - focus on past transactions and past events at the reporting date,
   - relate specifically to the entity at hand,
   - provide additional information, such as
     - assumptions and judgments for the items recognised in the balance sheet
     - risk that may affect items recognised in the balance sheet
     - alternative measurements, where relevant.

   Basic rule: The more uncertainty affects the amounts posted in a balance sheet, the more information needs to be disclosed in the notes.

3. **Rules for disclosure requirements:**
   Disclosure requirements should

   - have their very own objectives (distinct from the objectives of recognition and measurement)
   - be given the same level of depth as recognition and measurement requirements
   - be consistent for all standards (scope, depth)
   - be based on principles (avoid requirements that go into further detail)
   - proportional (reasonable cost-benefit trade-off)
   - not be used to compensate for inadequate recognition and measurement requirements
   - be reviewed on a regular basis in order to remove any overlap and any requirements that are not essential.

4. **Applying disclosure requirements:**

Special care is required in applying the **materiality principle** (immaterial information reduces the significance and understandability of disclosures).

5. **Communication:**

The focus of any disclosure requirements should be on the **communication of information** to the users of the financial statements (no compliance exercise).

6. **Successful in practice:**

Drafters, auditors and regulators should support the improvement of disclosures by applying the principles outlined above.

We essentially agree with the key principles. However, we have our doubts as to their practical value, for instance when having to decide with the auditor which information is immaterial and can thus be left out. The more so since the use of check lists will be indispensable in practice on account of the long list of disclosures required. The major challenge for standard setters will be to draw up clear rules that are based on principles and allow for entity-specific arrangement, while offering the highest degree of security (in interpretation) and clarity.

It is unclear how the disclosures can be adjusted to meet an entity's specific needs while financial statements continue to remain comparable.

Question 1.2 – Understanding the problem.

The Discussion Paper suggests that there are two main areas for consideration to improve the quality of disclosures:

- *avoiding disclosure overload, which may be caused both by excessive requirement in the standards, and by an ineffective application of materiality,*
- *enhancing how disclosures are organised and communicated in the financial statement, to make them easier to understand and compare.*

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

We agree that the following constitute essential areas of improvement:

- avoidance of an "information overload" caused by excessive requirement in the standards as well as an ineffective application of materiality,
- enhancing how disclosures are organised and communicated in the financial statement, to make them easier to understand and compare.

4.1 Materiality

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 understanding and relevance of disclosure?

We would generally welcome a strengthening of the materiality principle. However, we are doubtful with regard to the practical implementation. Firstly, when it comes to agreeing with the auditor which information can be left out on account of their immateriality and secondly, we fear that assessing materiality in accordance with the proposed method/indications requires an additional effort, since, in spite of being immaterial, an underlying values would have to be produced first and then subjected to the materiality assessment. (cf. example in Chapter 4, par 41)

4.2 Materiality

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.

We support the implementation of guidance to assess materiality in a Disclosure Framework.

5.2. Organisation of the Notes

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

1. Flexible approach: by order of priority in descending order, i.e. the most important information first
2. Grouping information: groups of information with similar characteristics, e.g. all information relating to risk in one group, either (a) by grouping similar note together or (b) by bundling information within the note
3. Presentation of information in the notes: providing a sense of the importance of a disclosure through its presentation, e.g. amount of information as a factor of its importance

The flexible approach is difficult to put into practice – particularly during uncertain and precarious times such as these - since a regular adjustment of the organisation and the order of note disclosures in accordance with their importance in the respective period require a major effort. Furthermore, the comparability of financial statements – of different entities or of several periods for one and the same entity - becomes more difficult on account of the entity's specific structure and the changing order of the disclosures in the notes.

Generally, we would welcome the grouping of notes data by subject matter/content. General requirements for this would be indispensable in order to facilitate a comparison of financial statements from different entities.

In principle, we endorse the proposal to adjust the amount of information according to the importance of the disclosures in the notes so as to give a sense of the importance of the information. However, clear and definite rules for the assessment of significance and the required amount of information to be provided are absolutely necessary.

Sincerely,

Dr. Franz Rudorfer
Managing Director
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