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Ms. Francoise Flores,
Chair, EFRAG
35 Square de Meeus
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Belgium

14 January 2013

Dear Madam/Sir,

EFRAG Discussion Paper: *Towards a Disclosure Framework for the Notes*

The Accounting Standards Committee ("DASC") set up by "FSR – danske revisorer" is pleased to respond to EFRAG's Discussion Paper. The Committee discussed the EFRAG Draft Comment Letter during meetings in the end of 2012 and during its January meeting. We also co-hosted an Outreach Event in Copenhagen in the end of October 2012 on this issue.

We welcome very much the discussion paper from EFRAG, ANC and FRC and its objective to stimulate debate about improving the quality of disclosures in the financial statements. It is a very important issue to deal with for standard setters and other stakeholders in financial reporting throughout Europe and we therefore appreciate the efforts made by EFRAG until now.

We encourage you continuing the focus on this. We also welcome the international cooperation with IASB and FASB.

We have noticed that further discussion papers have been issued, especially the FRC paper: "Thinking about disclosure in a broader context. A road map for a disclosure framework" which is issued in co-operation with ANC and DRSC. We agree with these standard setters that the future disclosure framework should take a more holistic approach.

In contributing to the debate, we have commented on the questions raised in the following pages.

We would be happy to elaborate further on our comments should you wish so.

Kind regards

Jan Peter Larsen	Ole Steen Jørgensen
Chairman of the Danish	Chief consultant
Accounting Standards Committee	FSR – danske revisorer

Appendix – Detailed Response to Questions

EFRAG Discussion Paper 'Towards a Framework for the Notes'

Question 1.1 – Key principles

The Discussion Paper 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?

We welcome the EFRAG DP and its objective to stimulate debate about improving the quality of disclosures in the financial statements and we support the notion of having 'key principles' to guide the development of a disclosure framework. The key principles set out in the discussion paper serve as a useful first step.

We believe it is critical that relevant stakeholders work together in search of possible ways to reduce the volume of disclosures in the financial statements. As such, we think it should be considered if the specific goal of reducing the overall volume of disclosures should be part of the general objective.

As for the purpose and content of the notes we think there may be instances where it is appropriate to disclose forward-looking information in the notes, for instance in order to estimate future cash flows.

We very much agree that disclosure requirements should be principles-based and that focus should be on communicating relevant and material information. We therefore also agree that the concept of materiality and how it is applied when it comes to the notes is a key element in reaching a desired objective of reducing the volume of notes disclosure in financial statements.

Like others, we have experienced that the concept of materiality as it applies to the notes is in need of clarification. Different stakeholders take different views as to how materiality should be applied to notes disclosure. In our experience, some stakeholders are of the view that whenever a transaction or a line item is material, all of the listed disclosures within a standard are required. To archive a goal of reducing volume of disclosure there needs to be a better common understanding among all stakeholders about how the concept of materiality is applied to disclosure in the notes.

Question 1.2 – Understanding the problem

This Discussion Paper suggests that 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 organised and communicated in the financial statements, to make them easier to understand and compare.

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

We agree that these are the two areas of focus to improve financial statement disclosures. We think an important objective of any disclosure-related standard setting activity should be to avoiding disclosure overload. An important step in the process would therefore be to identify what information is relevant for users and what is not. This would require all stakeholders, including standard setters, preparers, auditors and regulators working together. It requires an open mind and the willingness to potentially change traditional thinking and behaviour.

While we agree that enhancing how disclosures are organised and communicated in the financial statements (1.2.b) is also important we see the area of avoiding disclosure overload (1.2.a) as the most important.

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.

We agree that to decide what information to require to be disclosed in the notes, it is first necessary to define the purpose of the notes and determine what role they should play. The proposed definition provides a good starting point for further discussion.

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?

The proposed definition provides a good starting point for further discussion and we agree that the main function of the notes should be to explain and support the primary financial statements.

We don't think notes should be limited to backward looking information only. In our view, there may be instances where it is appropriate to disclose forward-looking information in the notes, for instance in order to estimate future cash flows. Going concern and non-adjusting post-balance sheet information are other examples of forward-looking information which we believe might warrant disclosure in the notes.

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?

We generally agree with the proposed approach and the description.

We support the standard setter having indicators to guide what disclosures are required in financial statements. On the other hand we find it important that the application of such indicators by standard setters must results in a change to what disclosure is required under IFRSs today. The application of the indicators has to result in more relevant and informative disclosures.

We think that a category on "information about the reporting entity as a whole" should be included; however we question whether it should be in the notes or if such information is better placed elsewhere in the financial statement e.g. in the management commentary. We also refer to our answers to chapters 2 and 4 and to question 3.3 where we mention the need for a discussion on the structure of the financial statements as a whole and not only a discussion on which information to include in the notes and how to structure the notes.

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?

We agree that the development of indicators is helpful in giving structure to the decision process by standard setters as long as it is clear that they are there as guidance to the standard setter. It is important that the indicators are not seen as prescriptive when they are applied in establishing new disclosure requirements. Furthermore, we find it important that the indicators do not lead to increased disclosure requirements compared with today, the purpose of the disclosure framework is to deal with the disclosure overload and to give more relevant disclosures to users of financial statements.

Question 3.3

Do you agree with the way 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?

We agree that risk information is essential to users understanding the financial performance and position of an entity; a point of view also supported by a recent survey conducted by "FSR – danske revisorer" among 100 professional investors where 84 % responded that risk information is essential or very essential to an understanding of entities' performance.

Depending on the type of risk disclosure the question is whether at least some of this information is better placed in the management commentary. In some instances we believe the risk information is better placed elsewhere in the financial statements or perhaps even in another document e.g. a separate risk report. In our view, the standard setter should therefore not limit presentation of risk information to the notes.

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

We believe that principle-based disclosure requirements are the most effective in improving the quality of disclosures.

We also believe that disclosure requirements should be expressed in clear disclosure objectives and it should be explained why certain information is required to be disclosed and why it is relevant to users.

It is important that the objectives are flexible and that disclosures are only applied if it is applicable to the reporting entity and after an entity-specific materiality assessment. The approach in recent IFRSs which have included disclosure objectives but then are followed by detailed lists of disclosure requirements should be avoided, as such an approach promotes a 'checklist' mentality to disclosures and limits the need for preparers to exercise judgement about what relevant information should be disclosed.

The principle-based disclosure requirement approach will give more freedom to preparers to decide what information will best serve the needs of users. This will require a debate amongst preparers, auditors and regulators and users about what information is essential and why.

A key element for the principle-based disclosure requirement approach to succeed is a better articulation of the concepts of relevance and materiality. Especially we find that the role of a robust application of materiality should be emphasised. The application of materiality is key to improving the relevance of financial statements. We generally support a principle-based approach to materiality and find that a common understanding of the concept among prepares, auditors, regulators and users through dialog and possibly additional guidance is crucial to increase the value and improve the relevance of financial statements. As we proposed in our comment letter on ESMA DP on Materiality we believe that IASB and not regulators should develop the guidance, if any, on materiality.

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 as entity *size, or whether they relate to interim or annual financial statements? Do you think that establishing alternative disclosure requirements is appropriate?*

We believe that a principle-based disclosure requirement approach where there is also strong focus on valid user needs supported by a principle-based approach to materiality commonly understood among all stakeholders are flexible enough to deal with reporting by entities of different sizes and in different industries.

We agree that the 'one size fits all' approach to disclosure requirements has some disadvantages for instance when it comes to information about EPS and segment information. We therefore acknowledge that there are some limited areas where differential disclosure requirements may be appropriate, but these should only be in very rare cases and could be dealt with without introducing a differential disclosure regime.

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?

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.

Response to Question 4.1 + 4.2

We find that "materiality" – both quantitative and qualitative – in connection with the preparation of financial statements is very important. Consequently, we find that a Disclosure Framework should reinforce the application of materiality. On the other hand, we find that the example mentioned in the question is given in a misleading way. In our opinion the statement must state what is going to be included in the financial statement and not what is to be excluded.

Application of materiality has been the predominant theme in the Danish debate about disclosure requirements.

In our opinion the present guidance on materiality is insufficient. That is why we will be very pleased if EFRAG will encourage IASB to develop further guidance in this area. The development of further guidance could involve indicators as suggested in the paper that may be useful in forming materiality judgments, but we would caution against developing an approach too detailed because this will potentially lead to a checklist approach.

It should be a principle based approach to materiality and it should be further elaborated how to best explain the principles being through dialogue with relevant stakeholders (preparers, users, auditors, regulators) or through additional guidance (with an appropriate balance).

We agree that a disclosure framework should build on and develop the concept of materiality in Chapter 3 ‘Qualitative Characteristics of Useful Financial Information’ of the Conceptual Framework.
Any guidance should avoid emphasising quantitative thresholds for disclosures.

Indicators may be useful in forming materiality judgements but balance to not end up in checklist mentality again.

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?

We find that the proposals provide a good starting point for further development of guidance on materiality. In addition, we will suggest that the guidance on materiality in the notes is divided into different groups where materiality could be assessed differently. Examples of such groups could be: Stewardship/control notes (notes of particular interest, e.g. related party transactions), notes on risks, notes specifying items in the financial statements etc.

Indicators should remain principle based to not end up as rules.

Question 5.1

Chapter 5 includes proposals for improving the way disclosures are communicated and organised. Would the proposed communication principles improve the effectiveness of disclosures in the notes? What other possibilities should be considered?

We agree that significant improvements could be achieved regarding the way disclosures are communicated and organised.

We agree that disclosures are a tool for communicating relevant and material information to users, and therefore, user needs – not a strict black letter compliance exercise – should be the primary objective of disclosures.

We do not think that such behavioural changes can be achieved solely through a disclosure framework or through an accounting standard; it should also be encouraged through other means such as discussion forums, outreach arrangements, award for best disclosure practice etc.

We do agree with most of the proposed communication principles which hopefully would be a good starting point for further debates and initiatives.
However, we fear that a requirement to organize the notes in order of priority would imply frequent changes of the order of the notes and it would be more difficult for users to compare the notes from year to year and between different companies.

The role of technology in communicating information should also be considered. In Denmark filing in XBRL is mandatory for small companies from 2013, for medium-sized and large companies from 2014 and for listed companies from 2015. We are looking forward to see the tools to be developed to ensure an easy access to financial reporting in XBRL.

Question 5.2

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?

We think the standard setter should encourage but not prescribe the way in which the notes are presented and organised as it is a matter best left to the judgement of preparers.

We are not sure that we agree with the reference to IAS 34 as a basis for prioritising the notes; one reason being that in our view IAS 34 in itself is in need of a major overhaul.

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.

No.