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Submitted online

Brussels, 11 September 2017

Subject: EFRAG document for public consultation: *Preliminary responses to the questions in the IASB Discussion Paper DP/2017/1 Disclosure Initiative – Principles of Disclosure*

Dear Mr Gauzès,

Accountancy Europe is pleased to provide you below with its views and comments to the questions raised by EFRAG in its draft comment letter on the IASB's Discussion Paper (DP) *DP/2017/1 Disclosure Initiative—Principles of Disclosure*.

We agree with most of the comments and concerns expressed in your draft comment letter. However, it appears that we have some differences of views and some additional comments, as summarised below.

Accountancy Europe shares EFRAG's concern that not enough focus was given to address the overload of disclosure requirements of IFRS Standards. We also agree with EFRAG that the problem is multifaceted and that the requirements in IFRS Standards are not the only root cause. We recommend EFRAG to highlight more the importance of the quality, clarity and relevance of the disclosures provided by an entity. We propose similar suggestions to the IASB.

Moreover, the proposals in the IASB DP, including EFRAG's suggestions, where applicable, could help in addressing the disclosure problem, subject to certain factors that need to be met. One key success factor to mitigate the disclosure problem is to ensure that all key stakeholders (preparers, auditors, regulators) behave in the same way. We draw your attention to our IASB response to question 3 where we list a few other factors.

We are in line with EFRAG's tentative views on the disclosure of IFRS information outside the financial statements and the issues identified that are associated with the use of cross-references. On EFRAG's concern that the proposed requirement to allow the use of a cross-reference only 'if it makes the annual report as a whole more understandable' will be difficult to implement, we suggest to the IASB to demonstrate through examples circumstances where this might arise.

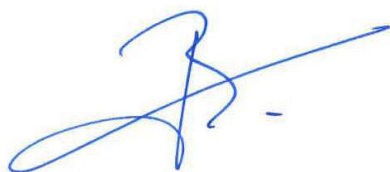
We also agree with EFRAG that the boundaries of categories of accounting policy disclosures could be clarified but we consider this to be a secondary issue. What is important is for an entity to disclose relevant accounting policies which are entity-specific.

Our responses to the specific questions of the EFRAG draft comment letter can be found in the attached appendix to this letter. We hope that you find our comments helpful in finalising the EFRAG comments to the IASB.

For further details, we attach our tentative views to the IASB DP, subject to changes upon its finalisation. You may observe that Accountancy Europe has expressed other concerns such as its disappointment that the IASB has not discussed the wider corporate reporting debate in the DP. We understand that the primary focus should be the financial statements. However, financial statements are only one means of delivering financial information and only a subset of what comprises corporate reporting. The Board has also recently considered to revise and update its Practice Statement Management Commentary as part of its research work on wider corporate reporting. In our Cogito Paper *The Future of Corporate Reporting – Content of corporate reporting*¹ we argue that companies should integrate information in the front-end of the annual report and in disclosure notes within the financial statements to avoid duplication. We would favour a discussion around this area in the IASB DP. To this respect, we also encourage EFRAG to be more involved in the IASB's wider corporate reporting agenda.

For further information on this letter, please contact Eleni Ashioti on +32 (0)2 8933387 or via email at elenia@accountancyeurope.eu from the Accountancy Europe team.

Sincerely,



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 37 countries that represent close to **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18)

¹ Accountancy Europe (previously FEE), (2015). *The Future of Corporate Reporting – creating the dynamics for change* [online] Available at: <https://www.accountancyeurope.eu/publications/future-corp-rep/>

ANNEX

Question 1

Do you agree with EFRAG's concern that the description of the disclosure problem in the IASB DP does not give sufficient emphasis to the problem of disclosure overload?

In our tentative response to the IASB, we affirm that not enough focus was given to address the overload of disclosure requirements of IFRS Standards, which impose significant costs on preparers that may outweigh the benefits to users.

We recognise that part of the disclosure problem is the difficulty encountered by entities to apply the concept of materiality. This concept is also often applied differently because of jurisdictional and regulatory diverse practices. In this respect, we acknowledge the efforts of the IASB, equally to EFRAG's view, to encourage effective application of materiality in the financial statements which is important when deciding what and how to disclose information.

While we agree with EFRAG's concern as indicated above, we would have favoured EFRAG to give more emphasis on the importance of the quality, clarity and relevance of the disclosures provided by an entity. Disclosures should be disclosed in a way that is useful to understand the business of the entity and to influence the primary users when making decisions.

Question 2

Do you have any other concerns related to the description of the disclosure problem beyond those identified by EFRAG?

We do not have any other concerns.

Question 3

Do you consider that the proposals in the IASB DP (including EFRAG's suggestions, where applicable) will help in addressing the disclosure problem? Why or why not? Please explain.

The disclosure problem as identified by the IASB, and acknowledged in EFRAG's draft comment letter, is multifaceted. Developing guidance on the three main concerns noted in the DP could help address the disclosure problem. Whether such guidance will be sufficient also depends on certain factors listed in the paragraphs below.

One key success factor to mitigate the disclosure problem is to ensure that all key stakeholders (preparers, auditors, regulators) behave the same way.

Moreover, the process which the IASB goes through for the drafting of the disclosure requirements and the drafting itself maybe two factors that if improved could help address the disclosure problem. We draw your attention to our response to question 15 in the Accountancy Europe draft comment letter to the IASB that explains these arguments further.

It also depends how the IASB will change the requirements in the existing standards. We propose a 4-step approach on which the IASB could focus. The first layer would be to include centralised disclosure objectives in the Conceptual Framework which would be used by the Board as a basis for developing disclosure objectives and requirements in the IFRS Standards. The second step would be to include some of the principles of effective communication in IAS 1 *Presentation of Financial Statements*. Thirdly, each standard should have its own objectives (based on the principles of effective communication); and as a result of that, the IASB should develop disclosure requirements based on the objectives of each standard. Lastly, the IASB could produce non-authoritative guidance, i.e. in the form of educational material or additional material, where deemed necessary.

Lastly, we concur with EFRAG's consideration that the primary focus for the next phases of this project should be to address the disclosure overload problem, in terms of excessive requirements in the IFRS Standards, through a comprehensive review of standards-level requirements. We urge the IASB to provide a time-table for starting this project.

Question 4

Do you agree with EFRAG's initial assessment that that additional non-mandatory guidance on effective communication will not bring substantial further insights or benefits? Why or why not?

We agree with EFRAG's observation that there are several sources of guidance on effective communication available to the entities. We are also of the view that it is more difficult to achieve any change in behaviours of the preparers, auditors and regulators when issuing non-mandatory guidance.

Question 5

Do you agree with EFRAG's initial assessment that further work is needed from the IASB to determine whether some of these principles could be developed into requirements to be included in a general disclosure standard or carried forward in illustrative examples or implementation guidance accompanying but not forming part of a standard?

We concur with EFRAG's initial assessment. In our response to the IASB we also mention that further work is needed to determine the possibility of including some of the principles of effective communication in a general disclosure standard. If we were to remark which are the key principles to be included within a general disclosure standard it would be those related to comparability, relevance and the avoidance of duplications. We suggest to the IASB to further explore including disclosure objectives at the level of each standard based upon these principles.

The IASB should also consider how to operationalise the guidance on principles of disclosures in a general disclosure standard. There is a risk that enforceability and auditability issues will be created. For instance, there is a perceived risk that some principles might be difficult to enforce by auditors and regulators.

Question 6

Do you agree with EFRAG assessment that more work is needed to assess the issues associated with the use of cross-references? In what circumstances do you think cross-references should be used?

We support EFRAG's assessment that more work is needed to assess the issues associated with the use of cross-references and we raise similar concern in our tentative response to the IASB.

Part of the IASB's consideration of the issues is to explore how digital reporting would affect the decision to cross-reference some information. For instance, it is not clear how the concept of cross referencing would interact with the requirement to use digital filing, i.e. eXtensible Business Reporting Language (XBRL), which will be made mandatory as from 2020 for the filing of all consolidated accounts of listed entities – reporting under IFRS – within the European Union. Also, frequent use of cross referencing might create auditability issues and obscure the readability of the financial statements. We share similar view with EFRAG that cross referencing to the annual report or to other statements should only be made when information is accessible to the users of the financial statements at the same time, it is provided under the same terms and has the same duration.

Question 7

Is the use of cross-referencing, i.e. including IFRS information in the financial statements by cross-reference, common in your jurisdiction? If yes, for what types of information? Please explain.

From the experience of our members in the UK, it has been common practice to use cross-referencing, for example in relation to the disclosure of directors' remuneration. This can be a practical solution when local regulatory requirements duplicate information also required to comply with IFRS standards.

Question 8

Do you consider that cross-referencing should be allowed in a broader set of circumstances than in current IFRS Standards? Please explain what in your view would be the appropriate conditions.

We consider that cross-referencing should be allowed in a broader set of circumstances than in current IFRS Standards.

While we agree with the proposals in the DP that the IASB sets a general principle in a general disclosure standard allowing broadly the use of cross-references for any IFRS information that is required in the financial statements, we are also concerned by the risk of abusing the use of cross-referencing. We, therefore, support the idea of requiring, in the general disclosure standard, an entity to meet certain qualitative conditions to be able to use cross-referencing.

Moreover, we propose that the IASB to evaluate and investigate whether information presented outside the financial statements should not only be limited to the annual report.

We also note that the IASB's decision to restrict the use of cross-referencing to be provided only within the entity's annual report could also potentially increase the risk of discrepancy with audit, regulatory and legal restrictions in different jurisdictions. The principles described in paragraph 21B of IFRS 7 *Financial Instruments: Disclosures* (see paragraph 4.3 of the DP) seem to be a better solution. That is, to allow an entity to include information elsewhere necessary to comply with IFRS standards outside the financial statements, provided that the information is incorporated by cross-reference from the financial statements to some other statement (without restricting this to the annual report), that is available to users of financial statements on similar terms as the financial statements and at the same time.

In addition, we share EFRAG's concern that the proposed requirement to allow the use of a cross-reference only 'if it makes the annual report as a whole more understandable' will be difficult to implement. We do not expect this criterion to occur often. To make the sentence more concrete, we suggest that the IASB includes examples to demonstrate circumstances where this might be the case. For instance, the disclosure of the remuneration package if included in a single note forming part of the annual report would make the information more understandable.

Question 9

Do you agree with EFRAG's tentative view that providing guidance on unusual or infrequently occurring items may be helpful, but the IASB should consider more broadly what adjustments are made to performance reporting? If yes, what other issues or requirements the IASB should consider? Please explain

We agree with EFRAG's preliminary view that providing guidance on unusual or infrequently occurring items may be helpful. This is aligned with the IASB's tentative view in paragraph 5.25 of the DP that "a general disclosure standard should explain when and how items can be presented in the statement of financial performance as unusual or infrequently occurring".

We are also in line with EFRAG's suggestion in paragraph 88 which would have preferred the IASB to have a more holistic view on unusual or infrequently occurring items in the statement(s) of financial performance which would look at all aspects of the issue, potentially including other adjustments made to performance figures.

In addition, we would have favoured the consideration of non-financial performance measures as part of a more holistic view on the use of performance measures.

Question 10

Do you have any particular views on the extent to which entities should be required to disclose accounting policies referred to as Category 2 in paragraph 96(b) above? Please explain your views.

We agree with EFRAG that the boundaries of categories of accounting policy disclosures could be clarified but we consider this to be a secondary issue. What is important is for an entity to disclose relevant accounting policies which are entity-specific. We therefore suggest to the IASB to abolish categories 1 and 2 and retain one single category that relates to material items, transactions or events.