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Att.: Mr. Jean-Paul Gauzes, Board President
By e-mail: Commentletters@efrag.org

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Dear Jean-Paul,

EFRAG Draft Comment Letter on the IASB's Discussion Paper DP/2017/1, Disclosure Initiative – Principles of Disclosure

The Danish Accounting Standards Committee set up by FSR – danske revisorer (DASC) has considered this issue during its August and September meetings. Our comments are:

We generally agree with most of the comments included in the EFRAG Draft Comment Letter and in particular to focus on the problem of disclosure overload.

Our main concerns with the IASB DP where we have slightly different views than EFRAG or want to put more emphasis on the matter include the following:

- DASC agrees that the disclosure issue is particularly of overload of IASB note disclosure requirements. We also believe it partly stems from the massive increase in note disclosure requirements every time IASB issues a new standard.
- DASC supports to have general disclosure objectives, but we also strongly believe IASB must explain and justify each individual disclosure requirement in order for all parties involved in financial reporting including preparers, auditors, users and enforcers to understand the reason for the requirements. It will enable them to discuss properly what information the disclosure requirements are designed to give users and whether to include the information or not.
- The issue of non-IFRS information in the financial statements is an issue of broader character in the EU, where we have to issue an Annual Report including a management report (MR). In the MR there are often comments on the numbers and the development in the Financial Statements (FS). Sometimes management includes non-IFRS numbers in accordance with different recognition and measurement criteria in the

primary Financial Statements and management comments on those non-IFRS numbers rather than IFRS numbers. We believe IASB should intervene and disallow non-IFRS numbers in the primary financial statements if they are in conflict with IFRS recognition and measurement criteria.
- We believe the issue of unusual items is becoming a bigger and bigger concern, and we support IASB to deal with it, and we support to use the US definition of unusual items as described in the IASB DP.
- DASC believes that cross-referencing is an important step forward and we believe cross-referencing is very important with the increased use of technology when presenting AR. Cross-referencing from the financial statements to the Management Report is important to avoid duplication in the Annual Report, but we also believe that it shall be possible to cross-reference to the company's website via links to concentrate the Annual Report on the most relevant and material issues – please see our comments in the appendix.
- DASC believes inclusion of non-IFRS information in the financial statements can be a problem and we propose to have non-IFRS (for instance national or EU required) note disclosure information in a separate section of the notes.

In the below appendices, we have elaborated on the above headlines and also addressed some of the questions raised by EFRAG.

If you have any questions and comments, please do not hesitate to contact Kim Tang Lassen or the undersigned.

Kind regards

Jan Peter Larsen

Chairman of the Danish Accounting Standards Committee of FSR – danske revisorer

Ole Steen Jørgensen

Chief Consultant

Appendix: Comments to the questions raised by EFRAG in the draft comment letter

Section 1: Overview of the disclosure problem

18 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?

We strongly agree. There is a disclosure overload at present and new standards always include additional disclosure requirements. The IASB board needs to consider whether all the disclosures really are necessary, and to explain why they are necessary. In our view, a general disclosure objective might help part of the way, but it cannot replace a discussion of the purpose and objective of the individual disclosure requirements.

IASB do not consider disclosure overload as one of the issues behind the "disclosure problem". We strongly believe that there is a problem in the form of disclosure overload. The amount of specific disclosure requirements included in the standards has increased significantly over the past 10 years. Every new standard by the IASB adds many new specific disclosure requirements, see for example IFRS 9, IFRS 15 and IFRS 16. We believe that a big number can be deleted.

Furthermore, the purpose or objective behind the individual disclosure requirement is not described in the standards or in Basic for Conclusions. When the board states that part of the "disclosure problem" is due to the information included in the financial statements and that the disclosures are either not relevant or immaterial or part of a compliance exercise - this might be right. However, in our view, this is to a large extend due to lack of information of why a specific disclosure is needed. When an entity and its advisors gain knowledge of the purpose behind a specific disclosure requirement, they are able to discuss and evaluate if the specific disclosure is relevant for the company and has to be included in the financial statements or not. As long as the entity and its advisors do not have knowledge of the purpose behind a specific disclosure requirement, the evaluation often ends in a numeric materiality discussion. Therefore, the board needs to address why a specific disclosure is required and what information the disclosure is designed to give to the user of the financial statements.

General disclosure objectives are also one of our concerns. It is important that the IASB does not see a very wide disclosure objective as a solution to the problem. A disclosure objective states the main purpose of the disclosures in a given standard, but does not help the issuer that much in deciding what disclosures to include. E.g. the disclosure objective in IFRS 7.7 states that an entity should disclose information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance. This is a fine objective and sets the overall lines for the disclosures of financial instruments, but it does not explain why the individual specific disclosure requirements required in IFRS 7 have to be included in the financial statements.

20 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.

We are not convinced that IASB has got the reasons for the disclosure problem right in the DP as it is not only due to preparers not understanding the issues of materiality, relevance and communication in relation to financial reporting. We also believe that the standards are part of the problem. Therefore, IASB needs to look at their disclosure requirements and to get some of the required overload removed. To be frank IASB cannot duck the issue by blaming all preparers. As mentioned above, IASB can assist by explaining the reasons for the individual requirements so that all parties understand why, when and how the board expects the information to be disclosed in the financial statements.

Section 2: Principles of effective communication

36 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. From a Danish point of view, entities have worked with effective communication over the last 5-7 years. The information value of financial statements has improved.

37 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?

Yes, we agree in principle.

Section 3: Roles of the primary financial statements and the notes

We agree with the EFRAG views on the subjects of this chapter.
This is an important part of the DP as the roles are not clearly defined today and due to the requirements in IAS 1 that some information could either be given in the primary financial statements or in the notes. Academic work shows that users put more weight to the primary financial statements and consider those more important than the notes. Therefore, there should be a clear separation between what information to be in the primary financial statements and what in the notes. Therefore, it is important that the roles are clearly defined.

Section 4: Location of information

We believe the question of location is a very important issue going forward when technology will become more important also for delivering corporate reporting including financial reporting. As background we can inform you that in Denmark you can only file AR electronically and each entity has to file both a pdf- and an XBRL-document. In addition, it is allowed to provide some of the information required in the management report via a link to the entity's website. A lot of entities use such links to present CSR reports, corporate governance reports and other legally required reports. A further development might be to have certain financial information presented on the website via such links, e.g. the accounting policies and maybe note disclosure of less importance required by national governments such as audit fees, directors fees etc. However, it might also be a way forward to have only relevant and material information in AR, and it might make the AR a document with information of core importance for the users.

Generally, we also believe it is important to allow cross-reference from the FS to the MR and vice versa so that some explanations could be given in the MR without having to be repeated in the notes, and vice versa. We are aware that IASB does not have the authority to set rules for the MR, but they must be aware of developments in the reporting arena and open up for new developments.

Disclosing some IFRS information outside the financial statements has been a wish for many entities for years. Therefore, we welcome that IASB discusses cross-referencing as a possible solution so that information is not duplicated and included several places in the annual report. We fully agree with EFRAG that the board needs to address some of the issues with cross-references and how it will work in practice. We also agree that any guidance should be principles-based.

76 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 agree. Cross references should be used when information is given in either other places in the annual report, e.g. management commentary. But in the future cross references might also be used to refer to the company website where information might be placed.

77 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.

Cross references are used to a certain degree from the FS to the MR, but it is not common practice partly because IASB does not allow it. Please also see above.

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

Yes – please see above.

Inclusion of non-IFRS information in the Financial Statements

With regard to non-IFRS information in the financial statements, this is an issue today as several countries require entities to disclose information in the notes, which is not required by IFRS, e.g. average number of employees, audit fees and even further disclosures on management remuneration. All this information is today included in the IFRS financial statements. In our view, IASB should develop a principle that allows entities to disclose non-IFRS information in the financial statements, but that information should be based on the criteria of information from the framework. It should, therefore, be relevant, material and not biased etc.

In addition, we proposed to consider having such extra non-IFRS information in a separate note section in the FS.

Section 5 Use of performance measures in the financial statements

DASC agrees with the EFRAG positions in this chapter on EBITDA, EBIT and unusual and infrequent occurring items. We will certainly support to have the presentation requirements in the income statement clarified so it is easy to comply. Likewise, we support to have unusual and infrequent occurring items defined, and we have support for the US definition of unusual items as described in the IASB DP.

We are also concerned about the tendency to give additional columns in the primary financial statements (for instance the income statement) where the numbers are not recognized or measured in accordance with IFRS. The same goes for the notes. We believe that such alternative information should not be allowed in the primary statements or at the least be given with a lower prominence. We also believe the IASB should discourage companies to give comments in the MR on non-IFRS figures (only).

Section 6 Disclosure of accounting policies

We broadly agree with EFRAG’s position. However, we are very favourably disposed towards the IASB proposal on location of accounting policies where it allows the alternative to locate policies in the note(s) containing the information to which the policy relates. In Denmark, it is now best practice to group the notes after subjects and materiality so that the most important group of notes come first and the second most important come second. Each note or group of notes include policies, estimates and judgements, narrative comments supported by illustrations such as tables and graphs. The users have seen this development as a very positive step forward. The mentioned practice has also supported all involved parties to consider relevance and materiality and has helped to have irrelevant or immaterial note disclosures deleted.

In addition, we might be agreeable to allow some less important accounting policies disclosed at the company website - via links or cross-reference.

Section 7 Centralised disclosure objectives

DASC broadly agrees with EFRAG.

Section 8 NZASB staff’s approach to drafting disclosure requirements in IFRS standards

DASC has much sympathy for the proposed approach. It could certainly be an attempt to decrease the disclosure overload and it might be easier to include justification for the individual requirements, and as mentioned earlier we find such justification to be very important.