

EFRAG DISCUSSION PAPER 'TOWARDS A DISCLOSURE FRAMEWORK FOR THE NOTES'

RESPONSE DASB TO QUESTIONS TO CONSTITUENTS

EFRAG, ANC and FRC invite comments on all matters in this Discussion Paper, particularly in relation to the questions set out below. Comments are more helpful if they:

- a. address the question as stated;
- b. indicate the specific paragraph reference, to which the comments relate; and
- c. describe any alternative approaches EFRAG, the ANC and the FRC should consider.

The EFRAG, ANC and FRC will consider all comments, which will be received by 31 December 2012.

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?

Response DASB:

We agree. A key principle 'The primary statements and the notes as a whole should give a true and fair view' should be added to the key principles for the purpose and content of 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?

Response DASB:

We agree with the remark that we would like to emphasize that the information in the notes should be coherent and avoid redundancy with other information like for example management commentary.

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.

Response DASB:

Yes. Such definition would be the basis for developing the framework and can be used as a basis for a benchmark of current disclosures.

For a good example of such a framework we refer to page 6 of the FRC-report on the same subject.

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?

Response DASB:

No, the proposed definition is too limited. It should not only be restricted to line items presented in the primary statements, but should also include overarching information, like for example group structure, uncertainties about the going concern assumption and stewardship. See also our remark in question 1.1 regarding “true and fair view”.

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?

Response DASB:

Generally we support the chosen approach. We assume this includes also prospective elements related to measurement of assets and/or liabilities.

We do think a category on “information about the reporting entity as a whole” should be included: we refer to our response to question 2.2.

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?

Response DASB:

Yes, we agree.

Question 3.3

Do you agree with the way how 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 (pg 27-31)?

Response DASB:

Yes, we agree with the remark that we would like to emphasize that the information in the notes regarding risk and stewardship should be coherent and avoid redundancy with other information like for example management commentary.

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?

Response DASB:

We do not believe a single approach is the most effective for all types of disclosures. In general we feel the approaches 'general disclosure objectives' and 'industry level prescriptions' are likely to be the most effective approaches in most situations / for most topics. In a Disclosure Framework indicators should be developed for what approach is the most effective in what situation and/or for what topic.

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?

Response DASB:

We believe a Disclosure Framework should be a coherent aggregate.

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?

Response DASB:

Yes, we agree.

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 DASB:

No. We believe guidance for applying materiality should be developed in the context of the overall Conceptual Framework.

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?

Response DASB:

See our previous response on question 4.2..

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?

Response DASB:

Yes, we believe focus should be on the users' needs.

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?

Response DASB:

No additional suggestions.

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.

Response DASB:

No.