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Request for Comments, Disclosure Initiative - Principles of Disclosure

Comments by the European Federation of Financial Analysts Societies (EFFAS) Commission on Financial Accounting (FAC)

Dear Hans:

The Commission on Financial Accounting of the European Federation of Financial Analysts' Societies (hereafter "FAC") is pleased to share with you the views of the European users of financial statements regarding the *Principles of disclosures* (Discussion Paper – DP - issued in March 2017). In preparing this letter, FAC has relied on discussions held between its members and analysts of different constituencies.

Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the development of information and the implementation of new or revised accountings standards. As we did previously, we continue encouraging the IASB to develop their documents and Standards avoiding complexity. Clear and comparable examples are always useful for users.

Based on the Discussion Paper, FAC has focused on what it considers to be the key points that need to be addressed and for which users would contemplate improvements.

Question 1

- a) *Disclosures* is among the most used information by users of financial statements and therefore is of utmost importance for investment professionals. For companies it is an essential part of the information to be provided to financial markets in order to complement and better understand the quantitative aspect of the financial statements and the performance and outlook of a



company. Companies should present a clear set of financial information, quantitatively and qualitatively, to permit a better analysis and understanding of the company's performance and capability to generate value in the coming years. Users -analysts and investors- rely mainly on this source of information to form their opinion about the merit of an investment in their decision process.

Therefore financial information communicated ineffectively makes financial statements difficult to understand. Different ways organizing how companies provide information – disclosures- as well as a lack of consistency in their presentation make users' work difficult in analyzing companies. An integrated document might facilitate providing relevant information to users.

- a).- We believe that the issues related to disclosures are well identified in the DP and proper guidance is needed.
- b). - General disclosure standard should address the issues assuming that it provides a certain structure and how information is reported facilitating among others the understanding of changes in a companies' business.

Question 2

We believe that having identified the issues in paragraphs 1.5-1.8 of the DP the IASB should, as previously noted, provide more guidance including digital reporting.

Question 3

- a).- Developing principles of effective communication will facilitate companies to report information consistently across-industries and sectors. Users will benefit from relevant information and companies will be able to reduce providing redundant information. Moreover, in absence of IFRS providing a standard, regulators might take up the issue and provide regional guidance.
- b). - We support the development of the principles listed in paragraph 2.6. Those principles should frame how information is reported. We would like to highlight particularly the relevance of points (a), (e) and (f).
- c). - We think that a *disclosure standard* will provide more consistency to entities when applying these principles of effective communication.
- d). - Considering sectors and entity-specific aspects some kind of non-mandatory guidance in formatting could be useful.



Question 4

- Although users by and large have a good understanding of the composition of the *primary financial statements* a further clarification will be helpful.
- As noted in paragraph 3.22, a general disclosure standard should describe the role of the *primary financial statements* as a set of quantifiable information that will provide a structured and comparable summary of an entity's recognized assets, liabilities, income, etc...
- The role of notes should be to supplement and clarify the information provided in the primary financial statements. A good illustration of this role is segment reporting which provides a breakdown of the single image given in the primary financial statement.
- Guidance in providing relevant information might support the principles to get a better understanding of the entities' outlook.

Question 5

- a) An entity should provide the relevant information within the IFRS financial statements and this information should be clearly identifiable. IFRS information provided in a cross-reference manner should also be clearly characterized and disclosed. Duplication of information has to be avoided.
- b) When IFRS information is included in the *management report* or other documents, it might get diluted. IFRS information outside the financial statements should be clearly identifiable.

Question 6

- Non-IFRS information should be permitted if it is properly labeled and identifiable from information complying with IFRS. Certain widely used non-IFRS metrics utilized by the financial community such as EBITDA and EBIT should be incorporated into IFRS. We are aware of the serious consideration being given to this in the *Primary Financial Statement* project.
- As previously noted cross-reference should be a valid way of disclosing information particularly when such information is required by regulators or local authorities. However, when required by regulators the information should be reconciled with the financial statements.



Question 7

Information that an entity considers relevant to provide -whether or not IFRS- should be allowed. If the information is non-IFRS it should be presented separately, e.g. in the management report. However, if non-IFRS information has to be included within the financial statements due for instance to local regulation it should not be duplicated.

Question 8

Most of these questions are related to the *Primary Financial Statements* project and we think that is difficult to draw any conclusion before knowing the outcome of that project.

- We agree that EBIT should be included in the financial performance statement and subtotals should be defined.
- We also think that EBITDA should be included and defined as a subtotal.

We support that the IASB considers to propose some type of guidance on the definition and the presentation of unusual or infrequently occurring items in the statements of financial position as stated in paragraphs 5.26-5.28.

a).- We think that the Board should develop definitions of unusual or infrequently occurring items as described in those paragraphs.

b). - Terms to describe unusual or infrequently occurring terms should be consistent and keep the same labels. However, in specific sectors like banking and insurance, guidance should be provided in line with the specific characteristics of the sector to define consistent profitability indicators.

c). - We think that the key requirements are already contemplated.

d). - The IASB should develop rules to allow preparers to present more performance measures in financial statements. In absence of IASB guidelines we observe an increase of APMs indicators which might mitigate the relevance of the financial statements for users' purpose.

Question 9

We support the board view that a general disclosure standard should define how performance measurements are presented. These measurements should be consistent with what is explained in paragraph 5.34.



Question 10

- We support the proposal that a general disclosure standard should include requirements on determining which accounting policies to disclose.
- The guidance on the location of accounting policies should be included in a general disclosure standard. Non-mandatory guidance is subject to potential regulation at a regional level.
- Disclosures with regard to changes in accounting policies should be at the beginning of the notes. Specific accounting policies like for investment property might be disclosed within the investment property note as far as this note provides relevant information.

a).- We support the Board's preliminary view that a general standard should include requirements. Accounting policy should be disclosed in a location that facilitates users to understand the information provided. Each specific disclosure to the extent that it facilitates the understanding of the information can be accompanied by the corresponding accounting policy. Duplication has to be avoided.

b). - The standard should explicitly mention that the accounting policy should avoid repeating IFRS standards and state only the selected option. However, when a new standard is introduced the accounting policy should be included.

We thank you for this opportunity to provide our views on such important aspects of financial reporting. We hope that the views of users will drive the work of the IASB and remain available for any further information.

Yours faithfully,

Javier de Frutos, Chairman EFFAS
Commission on Financial Accounting

EFFAS was established in 1962 as an association for nationally-based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 27 member organizations representing more than 16,000 investment professionals. The Commission on Financial Accounting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. FAC members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Bertrand Allard (SFAF, France), Rolf Rundfelt (SFF, Sweden), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) and Luca D' Onofrio (AIAF, Italy).