



EFRAG Supervisory Board
35 Square de Meeûs
B-1000 Brussels
Belgium

**Re: Towards a Disclosure Framework for the Notes
Discussion paper**

Dear Sir,

In the present letter ICAC is responding to your invitation to comment on the above proposal.

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?

First of all, we think that the most important question to deal with is to decide if the disclosure framework is going to be included in the present conceptual framework. Bearing this in mind and taking into account that there is nothing in the paper that could show an indication about this matter, we think that the best way to set out a disclosure framework is changing the current conceptual framework to include, if this is the case, the specific requirements related to disclosure information in the notes. We do not support the idea of having a specific and separate Disclosure framework from conceptual framework. If something must be added, we only support the idea of changing the current conceptual framework to include it.



Having said that above, the second step is to analyse if the principles already included in the current framework have been settled for regulating only the items showed in balance and profit and loss statements. If this is so, then we could study the key principles set out in the paper that would apply for information disclosure in the notes.

We think that the principles included in conceptual framework apply also for disclosure in the notes. The justification for this idea can be founded in paragraph OB1 from the introduction of the conceptual framework that says:

“The objective of general purpose financial reporting forms the foundation of the Conceptual Framework. Other aspects of the Conceptual Framework—a reporting entity concept, the qualitative characteristics of, and the constraint on, useful financial information, elements of financial statements, recognition, measurement, presentation and disclosure—flow logically from the objective.”

Consequently, we do not support the specific key principles for disclosure in the notes because we think these principles are included in conceptual framework and must be applied not only for recognition and measurement but also for disclosure.

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 it would be a good moment to improve the quality of information that firms show in the notes. The search of this improvement can imply a review of not only the number of requirements in the standards and its presentation but also the effectiveness for the preparers to apply the concept of materiality in the notes.

So, we agree with the main areas to improve but we also think that it would be important to divide these main areas in a different way this paper does, bearing in mind that one question is to decide what and how to inform and another is the way in which these provisions are applied.

In other words, the main areas to improve must be studied under the view of who is the main character to act and separate the role of setting out the requirements (standard setters role) from the application in practise of the materiality concept (preparers role).

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.

The purpose of the notes is the general purpose of the financial statements, which is to show the fair image of the entity. We think this is enough but if the definition of



the purpose of the notes served to achieve the improvement mentioned above we would agree to define this purpose. However, it is not explained in this paper how the definition of the purpose of the notes can improve the quality of the information included in the notes, and this question is linked to the next point.

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?

It seems that the objective of the definition of the purpose of the notes is to identify relevant information. We need to link this to the two areas needed of improvement mentioned above. So, under this view, we do not see the point of any definition because the problem seems to be the excessive information required as well as the way to show this information and the application of the materiality and we think that none of these problems is resolved with a definition of the purpose of the notes.

In this sense, we understand that chapter 3 is dedicated to analyse the question of the excessive information through deciding what information is necessary to fulfil, chapter 4 dedicated to the application of the concept of materiality to the notes and chapter 5 dedicated to address how to present best the information.

This is even more clear reading the start point of chapter 3 when, having said that the definition of the purpose of the notes acts as a filter for the content and it is necessary to go further by identifying what is relevant information, in the paragraph 2 the start point to do so is the definition of general purpose of financial reporting.

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?

The paper does not justify the need of a Disclosure Framework. Chapter three deals with the content of the Disclosure Framework, taking its existence as an initial point, but there is not any reason in the paper which justifies the need of a Disclosure Framework or how this can solve the questions or objectives mentioned above.

(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?

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 proposed users' needs and indicators in chapter 3 are helpful to identify relevant information. Nevertheless, we see that this information can be included in the notes because of a requirement set out in a Disclosure Framework or in each standard.

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?

We agree with the way this issue is showed in the paper.

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 agree it is necessary to improve the way in which it is required the information to add in the notes.

The paper presents the following alternatives:

Rely exclusively on preparers to provide relevant information



- Provide only disclosure objectives in each standard
- Develop industry-based disclosure requirements
- Develop a single, common set of requirements
- Develop distinct disclosure requirements in each standard

The last one is the best way to set out the information to disclosure in the notes.

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?

It can be in contradiction with the materiality. We think that the concept of materiality, as we can see in the next question, let fit the general purpose of the disclosure framework to the specific entity without any need of setting out a quantitative threshold.

We see that point more important in the current global context if we want to harmonise the standard into EU economy, it seems impossible to fix a effective threshold that means what information to disclosure in relation with the size of the entity, without the context of the economy in which this entity works. That means we can consider no relevant information to disclosure that in fact it is important to understand the performance of the entity into the specific economy in which it



works. We are referring, for example, to the case of the new proposal to modify the European accounting Directives that is trying to fix a general threshold to disclosure information in the notes.

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?

We think that the framework's materiality concept applies to notes so it is not necessary for us to repeat again the statement.

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.

We think that materiality judgements can appropriately be made by preparers of financial reports who know all the circumstances. We do not support general standards of materiality because the question is usually referred to specific situations.



We agree that the framework's concept of materiality applies to the complete set of financial statements that comprises according with IAS 1 and there are no guides for the other statements.

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?

ICAC is on the view that principles included in conceptual framework related to quality of information: relevance, faithful representation and understandability, are enough to be used as communication principles for the disclosure in the notes. Subsequently, we do not support the others principles set out in the paper.

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?

In our opinion, the most important thing in the way to communicate the information in the notes is the harmonization between all the entities in order to make easier to compare the financial statements of one entity with the financial statements of other entities.



It can be also a way to improve the quality of the information in the notes if some issues are presented as segmental information.

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.

In general terms, we do not support the idea of a specific disclosure framework. Having said this, we see a lack of reference to a very important concept to us, which is profitability so as to connect with the risk as it is define in the paper.

Ana M" Martínez- Pina
Chairman of ICAC

Madrid, 28th December 2012