



ICGN

International Corporate Governance Network

Attn: Françoise Flores
Chairman
European Financial Reporting Advisory Group
35 Square de Meeus
B -1000 Brussels
Belgium

Submit via email: commentletters@efrag.org

31 December 2012

Dear Chairman Flores,

Re: Discussion Paper – Towards a Disclosure Framework for the Notes.

We are writing on behalf of the International Corporate Governance Network (“ICGN”). The ICGN is a global membership organization of over 500 institutional and private investors, companies, and advisors from 50 countries. Our investor members are responsible for global assets under management of \$18 trillion USD.

The ICGN’s mission is to raise standards of corporate governance worldwide. Accordingly, the ICGN encourages cross-border dialogue at conferences and influences corporate governance public policy through ICGN Committees. We promote best practice guidance, encourage leadership development and keep our members informed on emerging issues in corporate governance through publications and the ICGN website. For more information about the ICGN, its members and activities please visit our website: www.icgn.org.

The purpose of the Accounting and Auditing Practices Committee (“A&A Practices Committee”) is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. The Committee, through collective comment and engagement, strives to ensure the quality and integrity of financial reporting around the world. <http://www.icgn.org/accounting-and-auditing-practices-committee.php>

Thank you for providing us with the opportunity to comment on the discussion paper to improve the disclosures in the notes to financial statements and clearly communicate information that investors and other users rely on in forming their own judgments. We are very supportive of the efforts of the European Financial Reporting Advisory Group (EFRAG), the French Autorité des Normes Comptables (ANC) and the UK’s Financial Reporting Council’s Accounting Committee (FRC). As global investors it is important that financial reports and their disclosures provide us with information we need for making investment decisions and for stewardship.

We agree with the objective of the discussion paper and believe relevance, materiality, and clear communication must be at the forefront of developing a disclosure framework. However, there are fundamental issues that first need to be

addressed before the specific questions posed in the 80 page Discussion Paper can be answered. We provide the following general comments for your consideration.

ICGN believes that the effectiveness and volume of disclosures extend beyond the notes to the financial statements. In this respect, it is important to consider whether the Conceptual Framework project; the framework currently being worked on through the International Integrated Reporting Council (IIRC), the development of key performance indicators by the Sustainable Accounting Standards Board (SASB) and *addressing* both financial and non-financial information would better focus the disclosure guidance.

Although the key principles in the document appear to be reasonable, we are concerned about some of the specifics. In particular, we oppose proposals to 'transfer' highly important categories of information - e.g. disclosures related to risk management (IFRS 7), remuneration and related parties – from the notes to the Management's Disclosure and Analysis (MD&A), as that is unaudited. Users need reliable assurance from auditors on types of disclosures which may not be directly related to line items in the primary financial statements, but which are key to an understanding of the entity's financial performance and its exposure to risk.

Investors rely on relevant disclosures specific to each company in assessing future prospects for financial performance and net cash flows, and in determining the economic decisions based on the entity's resources and claims. It is important that notes to financial statements provide additional relevant material information that cannot be or is not on the face of the financial statements. Therefore, ICGN supports EFRAG's approach that notes should provide information that is entity-specific such as, but not limited to, (a) assumptions and judgments that are built into the reported numbers the balance sheet and profit and loss; (b) information on risks that may affect these reported numbers; and (c) alternative measurements where this information would be relevant.

As a group, we have developed a position paper on 'What Investors Want from Financial Reporting' which we believe may be helpful in evaluating the disclosures that are important in fulfilling our responsibilities as owners and in our stewardship of the company¹. We do not support notes that only provide accounting methods in situations in which a standard does not prescribe a specific measurement method. We still believe it benefits users if the notes present a brief summary of significant accounting policies applied, (1) including the measurement basis used in preparing the financial statements and (2) the other accounting policies used that are relevant to an understanding of the financial statements, as set out in IAS 1.117.

At the same time, boilerplate notes that contain descriptions that repeat what financial reporting standards prescribe and regularly mirror definitions that can be found in IFRS should be avoided. Otherwise, there could be information overload and difficulties in identifying the truly significant accounting policies. That said, paragraph 31, and the coinciding matrix identifying triggering indicators, is helpful in providing guidance on when and what should be disclosed. The guidance on materiality and a defining matrix may also prompt preparers to provide relevant disclosures.

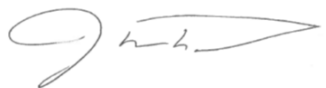
¹ ICGN Accounting and Auditing Practices Committee, "What Investors Want from Financial Reporting", position paper, 2010.
https://www.icgn.org/files/icgn_main/pdfs/best_practice/accounting_&_auditing_practices/a&a_practices_comm_position_paper_2010.pdf

As users, we would be very concerned to have each entity apply the decision model in an open-ended fashion. Also, we do not see the need for ordering note disclosures in a different manner, but believe formatting through extensible business reporting language (XBRL) would be very helpful in tagging, and in providing a search function, consistency and linkages between disclosures.

The ICGN recommends EFRAG work closely with the International Accounting Standards Board (IASB), the International Forum of Independent Audit Regulators (IFIAR) to ensure auditability, along with its current coordination with the Financial Accounting Standards Setting Board (FASB). As global investors we believe it is critical to coordinate and regularly assess the continued relevance of disclosure guidance, literature and standards in addition to ensuring auditability.

If you would like to discuss any of these points, please do not hesitate to contact Kerrie Waring, ICGN Chief Operating Officer at +44 207 612 7079 or kerrie.waring@icgn.org. Thank you for your consideration.

Yours sincerely,



Janine M. Guillot
Co-Chair, ICGN Accounting and
Auditing Practices Committee



Elizabeth Murrall
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Michelle Edkins
Chairman of the ICGN Board of Governors

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ICGN Accounting and Auditing Practices Committee