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[Via e-mail: commentletters@efrag.org]

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EFRAG DP Notes Comment letter

Comments on the Discussion Paper *Towards a Disclosure Framework for the Notes*

Dear Madam/Sir,

We thank you for providing us the opportunity to respond to your Discussion Paper *Towards a Disclosure Framework for the Notes*. TeliaSonera is an international telecom operator, the sixth largest in Europe, and active in around 20 countries primarily in the Nordic, Baltic and Eurasian regions.

First of all, we would like to compliment the project team. We believe that the Discussion Paper is a high-quality document which will be very useful in the future work of establishing a Disclosure Framework for the notes. We should point out, however, that we do not envisage such a framework as a separate document, but as a future integral part of the IASB Conceptual Framework.

In all material respects we agree with the principles set forth and the conclusions drawn in the Discussion Paper, with in most cases only marginal remarks. Please find our detailed responses and comments in the Appendix, following the order of the Discussion Paper's Questions to constituents.

In some areas our comments express a desire for clarifications and/or additional discussions, performed either by the project team or a relevant successor to it. In summary, these areas are as follows, with references to the full wording in the Appendix.

Area	Question
• Certain relevant forward-looking information which is not always related to past events	2.2
• Information on an entity's risk appetite	3.3
• Alternative approaches to substitute current practice of mandating detailed disclosure requirements	3.4
• Notes to interim financial statements	6.1(a)
• Expectations on user knowledge	6.1(b)

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Should you wish to discuss the contents of this comment letter, please do not hesitate to contact Göran Nilsson, Head of IFRS and Compliance development, at goran.nilsson@teliasonera.com.

Best regards,

[Original signed by]

Christian Luiga

Senior Vice President, Head of Corporate Control

Appendix

Questions	**TeliaSonera responses/comments**
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?	Yes, we agree with the key principles.
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 organized 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 believe that there is a priority order between the two areas. Focusing only on area b. will help to some extent but be less efficient than focusing only on area a., which by itself will significantly enhance user-friendliness. On the other hand, only fixing area a. will not be enough. Only by combining the two you will be able to use the full improvement potential. In summary, yes, we agree that these are the two main areas.
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.	Yes, we believe that the purpose of the notes should be defined as a basis for setting the requirements on note information.
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?	Yes, overall we believe that the proposed definition is helpful in identifying relevant information to be included in the notes. However, while agreeing in principle, we would like to raise two questions: (a) IAS 8, paragraph 30(b) states that an entity "shall disclose known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the en-

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	tity's financial statements in the period of initial application." Currently, it seems logical to disclose such forward-looking information in the notes. Further, such information often relate to past events but maybe not always. Can one interpret the proposed definition as to include all disclosures made to comply with IAS 8.30(b) or is it a borderline case that might need to be further commented upon? (b) We believe that material events after the reporting date should be disclosed. In our jurisdiction, a "Board of Directors' Report" (cf. Management Commentary) is required as an integral part of the financial statements. Excluding "non-adjusting post balance sheet events" from the notes is therefore no problem for us, we actually prefer disclosing such information in the board of directors' report. However, given the vast number of jurisdictions already applying or in the process of adopting IFRSs, is it enough for a future Disclosure Framework simply to state that this information "belongs elsewhere"? Should the future work result in a wider purpose definition of the notes, we would support the alternative proposed in Appendix 1, paragraph 14b. "….. existing at the date the financial statements are authorized to be issued."
Question 3.1 In chapter 3, it is proposed to identify specific users' needs that the notes should fulfill. 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 fulfill 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?	(a) Yes, we believe that the description is clear enough. (b) We support the approach of the Discussion Paper as we believe (i) that a Disclosure Framework is not a stand-alone document, but has to be an integral part of the IASB Conceptual Framework; and (ii) that indicators are useful to assist the Board in deciding on disclosure requirements. (c) No, in general we believe that even if "information about the entity as a whole" certainly might be useful, such infor-

Questions	TeliaSonera responses/comments
(c) Do you think that a category on “information about the reporting entity as a whole” should be included? If so, why?	mation should be presented elsewhere. However, certain relevant risk disclosures might be described as “information about the entity as a whole” rather than related to specific line items in the primary financial statements. Therefore, we believe that it is important that an exclusion of the “as a whole” category from the Disclosure Framework does not prohibit entities from presenting such risk disclosures in the notes to the financial statements.
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?	Yes, we believe that the tabular presentation of proposed indicators and information content related to each category of user needs is helpful to assess relevance with regards to the note information. However, using such a tabular presentation on a stand-alone basis might increase the risk of embarking on journey of returning to the current unfortunate “checklist mentality.” Therefore, we believe that it is important for a Disclosure Framework to clearly state, as the Discussion Paper discusses in the preamble to paragraph 31, that: • Disclosures ultimately included in the financial statements are the result of an *integrated* assessment of relevance and materiality.
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?	Yes, in all material respects we agree with the Discussion Paper’s way of addressing risk and stewardship. However, to better understand the issue and potential implications we would have appreciated a somewhat more elaborate discussion, including conclusions, in paragraph 17d. “Information on an entity’s risk appetite,” although we recognize what is further stated in paragraph 20 regarding parallel initiatives undertaken on risk disclosures. Please also refer to our finishing comments to Question 3.1(c) above.

Questions	**TeliaSonera responses/comments**
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 behaviors, 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?	Yes, we believe that the current standard-setter practice of setting disclosure requirements should be changed. First of all, we believe that it is important to stress that strict adherence to the general principles set forth in paragraph 39 is instrumental in achieving such a change. We believe that the choice of "disclosure discretion approach" is second-line. As to the alternative approaches we are not convinced that there is one single approach that could be named as the most effective one. Maybe having a (smaller) spectrum of approaches is justified in order to efficiently manage information quality on a standard-to-standard basis? Likewise, maybe a combination of two approaches is beneficial from time to time? Generally, we have the following comments to the alternative approaches: (a) Preparer-dependent Being a member of the preparer community, this approach may at first glance appear to be beneficial. However, from a broader perspective, we believe that this approach is not a realistic one as it will hardly be effective in improving the quality of information in the notes for all stakeholders. (b) General objectives We believe that there are obvious merits to this approach, albeit we recognize the risks discussed in paragraphs 51 and 52. If those obstacles could be cleared, this approach would probably be effective in improving the quality of information in the notes. (c) Industry-specific For two main reasons, we do not deem this approach to be effective: (i) The standards themselves should be truly global, not only cross-border but also cross-industry. We fail to see the logic in using another principle for the note disclosures.

Questions	**TeliaSonera responses/comments**
	(ii) We agree with the conclusions in paragraph 54 regarding the significant degree of complexity introduced by this approach. Finally, a comment to the discussion on industry-specific metrics or Key Performance Indicators in paragraph 53. We acknowledge the fact that there are such metrics, but when it comes to our industry, telecommunications, we believe that the majority is of a non-financial nature and hence that future development will be best handled through direct contacts between preparers and users. (d) Single set We believe that there are obvious merits to this approach, albeit not in its extreme form. We recommend a variant, as described in paragraph 58, and believe that such an approach would be effective in improving the quality of information in the notes. (e) Detailed This is a “no change” alternative while, as already said, we believe that the current standard-setter practice of setting disclosure requirements should be changed. In particular, using this approach would probably jeopardize adherence to the general principle stated in paragraph 39d. At the same time, we appreciate the ICAS/NZICA re-wording exercise included in paragraph 60 and believe that this is and should be used as a good example of how standard setters could work with the language in general to make it “clear, balanced and concise.” To summarize, we believe that there are efficiency gains to be made by using approaches (b) and (d), and would appreciate if the project team, or a relevant successor to it, discussed this matter further to explore if the two approaches could work in parallel or if a combination might be the most effective one.

Questions	**TeliaSonera responses/comments**
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?	Please note that our comments below are written assuming adherence to the Discussion Paper's principles of materiality and relevance, thereby already having reduced the information overload and hence the work overload existing under the current disclosure regime. The Discussion Paper lists a number of possible differentiation alternatives, such as: (a) type; (i) individual vs. consolidated; (ii) interim vs. full-year; (b) size; (c) industry; and (d) public accountability. As already said in paragraph (c)(i) of our response to Question 3.4 above, we do not believe, on grounds of principle, that a differentiation by industry is the right way to go. We are also hesitant about the ANC "small listed company" approach. Why should a shareholder investing the same amount of money in two companies accept poorer information from the smaller company? For not publicly accountable small and medium-sized entities, however, a differentiation based on size should be workable, for natural reasons emanating from the fact that separate standards are issued, such as the existing IFRS for SMEs and the to be Guidance for micro-sized entities, both of which hopefully amended in the future to fully reflect a finalized Disclosure Framework for the notes. Also based on the existence of different standards, a differentiation based on type, such as separate/consolidated financials or interim/full-year financials, might be appropriate. In summary, other than as a natural differentiation following the issuance of standards based on type or size, we believe that standard setters should avoid establishing differential reporting regimes. The risk of overly increased complexity is too high.

Questions	TeliaSonera responses/comments
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?	Yes, based on our experience of how checklists are typically produced and used by auditors and regulators/enforcers, we do believe that the current "does not need" statement is not enough, but has to be complemented with a straight-forward statement clarifying that immaterial information actually could reduce the understandability and relevance of disclosures.
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.	Yes, we believe that assisting application guidance on materiality issues should be included in a Disclosure 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?	Yes, we believe that the approach is clear enough to be useful to improving the application of materiality.
Question 5.1 Chapter 5 includes proposals for improving the way disclosures are communicated and organized. Would the proposed communication principles improve the effectiveness of disclosures in the notes? What other possibilities should be considered?	We believe that the proposed communication principles, i.e. that disclosures should be: (a) entity-specific; (b) current; (c) substance-oriented; (d) organized; (e) clear; and (f) linked are sufficient and that a consistent adoption of these principles will improve effectiveness.
Question 5.2 Do any of the suggested methods of organizing the notes improve the effectiveness of disclosures? Are there different ways to organize the disclosures that you would support?	When discussing the methods of organizing the notes, we believe that you have to bear in mind that: (a) consistent application of the materiality criterion as proposed in the Discussion Paper will by itself enhance the rele-

Questions	TeliaSonera responses/comments
	vance of the remaining disclosures, i.e. all notes will be more or less equally important; and (b) technology development (as discussed on page 64) has made it much easier to navigate and quickly find the information the user is currently searching for. We believe that these two factors significantly reduce the risk discussed in the Discussion Paper that "bulky" note information located in the beginning of the notes section will obscure relevant information located in the back. Having said that, we still believe that organizational guidance is useful and that applying the suggested methods will improve note effectiveness. However, we do not see these methods as mutually excluding one another, but would rather prefer a combination. Based on the definition proposed in the Discussion Paper: "….. a relevant description of *the items* presented in the primary financial statements …..", we propose an item-by-item presentation as the basis (standardized approach), but within that basic concept, preparers should be encouraged and guided on how to group information within notes (grouping approach) and to prioritize between notes (flexible approach) whenever deemed to enhance user-friendliness. As examples of grouping, we have found it useful to group income statement and balance sheet disclosures on income taxes and on pensions into one note, respectively. Also, disclosures on long-term and short-term borrowing might be presented in one common note. Further, co-locating, to the extent possible, the descriptions of your key sources of estimation uncertainties and accounting principles with their respective item-related notes would probably add value for most users. As an example of prioritizing, a multi-component note on business combinations (in itself an example of grouping) could be given a prominent location in a year with a major acquisition and a less prominent in other years.

Questions	TeliaSonera responses/comments
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.	We believe that there are two other issues that would should be addressed by the project team or a relevant successor to it: (a) When using the phrase "in the notes," we believe that most readers more or less automatically refer to notes to the *annual* financial statements. However, equity analysts, one important user group, mainly use annual financial statements as works of reference to check details in their valuation models, while they regard interim reports as the most valuable source of information on an entity. The Discussion Paper only makes short references to interim reports when addressing differential reporting regimes and communication issues. We do not anticipate any major differences from the principles set forth and the conclusions drawn in the Discussion Paper, but believe that at least for the sake of clarity a more elaborate discussion on how standard setters should address disclosure requirements in the notes to interim financial statements would be useful. (b) Users of financials statements range from small private investors not fully or at all familiar with accounting standards to highly-skilled professionals. Efficient communication to a diversity of user groups is a challenge for preparers. Particularly regarding the description of accounting principles, preparers are often accused of presenting "boilerplate" information that does not add value or communicate useful entity-specific information. One reason for this might be that preparers are trying to satisfy also the less skilled users, maybe to the extent of forgetting the current wording of the IASB Conceptual Framework: "….. users who have a reasonable knowledge ….. ." At the same time, standard setters, referring to user needs, constantly add disclosure requirements which make the notes more and more incomprehensible to the "common" reader, thus fo-

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	cusing more on the adjacent wording of the framework: "….. users may need to seek the aid of an adviser to understand ….. ." The Discussion Paper shortly touches upon what could reasonably be expected in terms of user knowledge. We propose an enhanced discussion about such expectations, with the aim to explore if a future Disclosure Framework should include, and if so, how less contradictory principles might be set, guiding standard setters as well as preparers.