CBN

COMMISSIE VOOR BOEKHOUDKUNDIGE NORMEN

EFRAG
De Meeûssquare 35
1000 Brussels

Brussels, December 19th 2012

Dear Sir, Madam,

Invitation to comment – Discussion paper Towards a disclosure framework for the notes

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Discussion Draft *Towards a disclosure framework for the notes* issued by EFRAG in July 2012 (hereinafter the "DP").

The BASB encourages the proactive work of EFRAG in Europe and believes that these activities will effectively enhance international financial reporting.

Please find our answers to the specific questions raised in the DP hereunder.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be .

Yours faithfully,

Jan Verhoeye,

Chairman of the BASB

North Gate III, Koning Albert II-laan 16, 1000 Brussel www.cnc-cbn.be +32 (0)2 277 61 74

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?*

By issuing this discussion paper, we believe that EFRAG has made a significant contribution to the ongoing disclosure overload debate.

The BASB is of the opinion that the overarching focus of improving disclosures should be on enhancing the following desirable attributes of disclosures: adequate information content (i.e. relevant and complete information); ease of access and parsimonious presentation; understandability; and comparability.

Besides the conceptual principles, we are also of the opinion that a short-term project should focus on finding the appropriate solutions starting from the current boundaries of the notes.

Although we do agree that a framework for the notes would be useful, the authority of such a document in the set of standards does not seem to be very clear. Would it be a standard, which would give it a mandatory character and how would it relate to IAS 1? If it is not a standard, would it then have the same authority as the conceptual framework? We are of the opinion that this fundamental issue on the mandatory character of the Framework should be addressed by the IASB.

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?*

The BASB agrees that the current set of standards often lead to a disclosure overload. With regard to the understandability and comparability of the related disclosures, we believe that as a result of principle-based standards, comparability is often difficult to achieve whenever entity-specific information is requested.

Besides the avoidance of disclosure overload and the organization of the disclosures in the financial statements, the BASB also believes that a primacy-of-activity view of financial reporting, and the related disclosures, is the most relevant starting point with respect to the disclosure debate. In this context we would also like to refer to paragraph 44 of the Conceptual Framework that states:" *the benefits derived from information should exceed the cost of providing it.*" We are of the opinion that the balance between benefit and cost should also be maintained.

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 definition of notes provided in chapter 2 covers the broad concept of notes to the financial statements, and ties in with our local GAAP general understanding as well.

EFRAG proposes that the notes should be limited to items (or their description) that arise from past transactions. On page 2, paragraph 2b, the discussion paper indicates that information about the future would only be provided in the notes to the extent that it relates to past transactions. Some call for more forward-looking information to be included into the notes. Such calls must be carefully considered in any further debate about the boundaries of the notes. We note that it may sometimes be difficult to draw the line. Would, for example, in a cash flow hedge of anticipated transactions the hedged volume of future sales relate to the derivative being recognised in the financial statements?

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?*

We refer to our answer to question 2.1.

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 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?*

We agree that it is appropriate to derive the objective and the content from the overall objective of financial reporting as set out in the Conceptual Framework, which currently does not specifically address notes information. However, since the notes form part of a set of financial statements which, as a whole, should present fairly the situation of the financial statements, they should support the objective of financial reporting.

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 believe that the indicators proposed in chapter 3 are relevant to both the short-term as well as the long-term process to be undertaken as part of the disclosure project.

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?*

The importance of stewardship to financial reporting was considered extensively as part of Phase A of the Conceptual Framework. The notes form an integral part of financial reporting and any discussion on stewardship should be considered in that broader context.

As regards the discussion of risk, we believe there is a risk that EFRAG is blurring the line currently distinguishing between uncertainties in applying accounting requirements (e.g. measurement uncertainty) and operating or economic risks, by including the former under risk disclosures. Operating risks should not be presented in the notes.

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 believe that disclosure requirements should include a required minimum and a part that may only apply if it is relevant to the reporting entity. This would balance the need to have a certain amount of common information that is clearly required and is provided by all entities and disclosure discretion of preparers.

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?*

IFRS already includes some element of differential reporting, for example:

- IFRS 8 *Operating Segments* and IAS 33 *Earnings per Share* only apply to entities whose shares are traded in a public market or that files, or is in the process of filing its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market
- IFRS for SME can be applied to smaller and medium-sized entities in some jurisdictions

We believe that the IASB should not introduce any other elements of differential reporting. The introduction of such regimes should be decided at the level of each jurisdiction which has the best knowledge of its economic and legal environment.

We note however that by developing scalable IFRS, may go some way towards differential reporting. Scalable IFRS disclosure requirements would contain a required minimum for all entities and otherwise an entity-specific part of the disclosure requirement. The key determination to make would thus be to identify that part of a disclosure requirement which is subject to materiality considerations by preparers.

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 believe that as a matter of education the disclosure framework should reinforce the materiality principle and guidance in the form of application guidance. The proposed statement in itself would not be sufficient.

For a more detailed discussion of applying materiality to disclosures, we refer to our comment letter to ESMA's initiative.

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 refer to our answer on question 4.1.

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?*

The proposals provide a good starting point and should be considered in the development of materiality guidance.

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?*

Improving the presentation of notes disclosures is one goal to be achieved in a short-term project. Therefore, we agree with EFRAG that this project provides an opportunity to consider a more useful organisation of notes. We believe that a hierarchy of information should be considered and could be the subject of a short-term project. The goal would be find ways of appropriately presenting key themes that today get lost in detailed disclosures. Such idea is also addressed by EFRAG under the heading of 'prioritising disclosures' in paragraph 34 of Chapter 5. We believe that, rather than going for a full flexible prioritisation every annual period (i.e. the order of the notes change from period to period bringing forth those parts of the notes that are more relevant), one may consider an approach similar to our proposed approach to drafting disclosure requirements, i.e. to define a required minimum and a flexible rest. A flexible part could be in the form of an executive summary that highlights key themes of the current financial statements in a note at the beginning of the notes. The content of that highlight note would necessarily change from period to period.

Paragraph 37 of Chapter 5 suggests that IAS 34 may be a blueprint for prioritized information. We question that IAS 34 in its current form provides a sufficiently comprehensive approach to the problem, in particular since IAS 34 is dependent on full year financial statements. Further, we note that companies tend to present the information required by IAS 34 is recurring structure as well.

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?*

We refer to our answer to question 5.1.

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.*

EFRAG's proposals are currently based on the existing delineation of the notes as part of today's financial reporting. As other initiatives, such as integrated reporting and XBRL, continue to develop, it will be necessary to consider how the financial information will link with other information provided in the future.

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