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**EFRAG Discussion Paper: "Towards a Disclosure Framework
for the Notes"**

Dear Ms Flores,

We would like to express our appreciation for this opportunity to comment on the EFRAG Discussion Paper "Towards a Disclosure Framework for the Notes" which we will now do in the following:

As correctly stated in the discussion paper, the amount of (notes) information has continued to increase in recent years.¹ This is due, on the one hand, to the greater complexity of the transactions undertaken by companies and of the economic environment in which they operate. But what is even more important is the lack of a disclosure framework and the lack of or weak application of the concept of materiality. For reporting companies, this essentially means that reporting (increasingly) becomes an exercise in compliance. For investors, the vast amount of information that must be disclosed in today's financial reporting poses the risk of "information overload".² This is why simply expanding the data/information would have a counterproductive impact on the transparency of companies.

Various studies and surveys have already shown that the volume of disclosures can be reduced without this leading to a loss of information.³ Persistent application of a principle of materiality⁴ and focusing on *entity-*

¹ Cf. EFRAG Discussion Paper (2012), p. 16

² Cf. KPMG (2011): Information overload – The paradox of better business reporting.

³ Refer only to The Institute of Chartered Accountants of Scotland and the New Zealand Institute of Chartered Accountants (2011): Losing the excess baggage.

⁴ Cf. EFRAG Discussion Paper (2012), p. 47 ff.

*specific*⁵ information are two important aspects here. When it comes to reducing information contained in the notes, we believe that the use of *cross-references* is another important factor. This would also help to make financial reports easier for readers.⁶ As part of ongoing technical developments (e.g. XBRL), the information reference is also easy to find, especially for users, and is possible without any loss of time or information.⁷

We therefore welcome the discussion triggered by EFRAG and support the preparation of a Disclosure Framework. We consider it generally important in this context that principle-based rules be created and that all-too strict specifications be avoided. This will give the reporting company a better shot "at telling a company's story"⁸. Ultimately, the most important aspect for users of financial statements is that the published data must be sufficiently transparent, understandable, reliable and relevant.⁹

Finally, we would like to point out that a number of different reporting initiatives are currently underway. We believe that it is important that EFRAG also work here in order to ensure that these proposals are bundled and brought in line with each other so that a further significant expansion of the reporting requirements that already exist can be avoided.

Should you have any questions, please feel free to contact us.

Yours sincerely,
on behalf of the German Banking Industry Committee
National Association of German Cooperative Banks



Gerhard Hofmann



Stefanie Morfeld-Wahle

⁵ Cf. EFRAG Discussion Paper (2012), p. 24

⁶ Cf. EFRAG Discussion Paper (2012), p. 61

⁷ Cf. EFRAG Discussion Paper (2012), p. 64

⁸ EFRAG Discussion paper (2012), p. 61.

⁹ Cf. The Institute of Chartered Accountants of Scotland and the New Zealand Institute of Chartered Accountants (2011): Losing the excess baggage. P. 6.

Please find our comments on the individual issues below.

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?

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 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 believe that avoiding information overload is the area that deserves the most attention when it comes to improving current disclosure regimes.

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 consider it useful to define the purpose of the notes.

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 think that the definition can help to identify relevant information that should be included in the notes.

The DP (Appendix 1 13, 14) points out that non-adjusting post balance-sheet events do not fall within this definition and discusses whether these non-adjusting events should be included. We are not in favour of expanding the definition to that effect, because such a measure would undermine the aim of limiting the amount of information presented. We therefore suggest that the current regulation under IAS 10 (Events after the Balance Sheet Date), which requires the disclosure of non-adjusting events after the reporting period, be omitted. After all, according to German GAAP (pursuant to EU Accounting Directives) information on non-adjusting events after the reporting date must be presented in the management

commentary. For this reason, we think this information should merely be included in the management commentary in order to limit the content of the notes to the events within the reporting period unless such events actually require adjustments to the figures presented in the primary financial statements.

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?

We find the description of the approach to be understandable.

- 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?

No, because we fear that such an additional category would expand the information provided beyond the purpose of the notes as it is argued in paragraph 11 of chapter 3.

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 think the proposed users' needs and indicators in chapter 3 are helpful to identify relevant information.

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 should be provided in the notes?

As the DP points out in chapter 3.18, entities in Germany are required to prepare a risk report as well as note disclosures which are cross-referenced in order to achieve compliance. We support this method of presenting risk information, since it has proven to be very systematic and effective in our experience as a preparer of financial reports. In presenting risk information in the risk report, especially on risks resulting from financial instruments, it should be possible to decouple the given information from the figures presented in the balance sheet and/or the statement of comprehensive income, if this will lead to a better understanding of the entity's risk profile. To avoid redundancy between notes and risk report, we propose that a definition of risk be included in a disclosure framework.

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 are certain that there are merits in providing preparers with greater discretion than they have today so that only such information is presented which is really relevant to the individual reporting entity. As a starting point, disclosure objectives should be provided and minimum disclosures should be required in each standard (see Question 3.5). However, we would not support the introduction of a general disclosure standard for all items because different types of items should not all be treated the same. Apart from minimum disclosures, entities should be obliged to present all the information that is necessary under the existing circumstances. We consider it reasonable to assume that within each industry information would be provided in a fairly consistent manner without the need to introduce industry-specific detailed rules. We hence believe that financial reports would remain highly comparable even with less detailed requirements.

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?

Yes we do. Under the EU Accounting Directives it is customary to differentiate between different categories for entity size and class-specific disclosures by each class of entity are required.

Moreover, alternative requirements have already been set up which depend on the type of financial statement (interim or annual) as defined in IAS 34 or on the type of company as in IFRS for SMEs (see IFRS for SMEs, BC156-158 Disclosure Simplifications). Therefore, Chapter 3 should include how to deal with these. We would prefer an approach that reduces the number or the extent of disclosures ("core disclosures" or "minimum disclosures") according to the specific issue (interim report, size class or listing of the company) rather than a separate set of disclosure requirements like the IFRS has for SMEs.

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 support the inclusion of such a 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 currently see no need for the introduction of (new) general guidelines on the application of the principle of materiality.

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?

We consider the approach to be clear. What's crucial, however, is how this principle will be applied in practice.

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?

We approve of the proposed communication principles.

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 think that the current approach of providing the notes in the same systematic order for each reporting period is basically preferable. We reject the alternative approach discussed by the DP that would require preparers to reorganise the notes each year and present them in order of priority including renumbering and changing cross references. This approach would be far too time-consuming and would lead to ongoing discussions about the suitability of the chosen priorities as pointed out in paragraph 5.36 of the DP.

We explicitly support what the DP says about the presentation of information in the notes in paragraphs 5.40f. We think the DP provides a good example in 5.41 regarding disclosures relating to share based payment.

Finally, we agree with the DP that the opportunities provided by the use of modern information technology need to be considered when discussing improvements in communicating 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.

We think that further consideration should be given to the general relationship between the notes to the financial statements on the one hand and management and risk reporting on the other. In our opinion, the notes should be limited to a minimum whereas more detailed information can be presented much better in the management report and in a separate risk report.

In order to avoid redundancies in reporting as a whole, cross references should be permitted.