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EFRAG
Mr Filippo Poli
35 Square de Meeûs
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Paris, December 17, 2012

Re: Towards a Disclosure Framework for the Notes (the DP)

We are very pleased to be invited to comment on the above mentioned DP. We have been asking for a complete review of the IFRS disclosure requirements for a while, as this is a subject that causes us concern. In fact we believe that the current trend that the IASB seems to be following without any second thoughts, is leading to an exponential growth of the disclosures, and this to the detriment of the relevance of financial information. We acknowledge however, that the IASB is not the only organisation responsible for this situation. Complete and very detailed disclosures have become a kind of "legal umbrella" for many preparers, auditors and regulators.

Please find below our answers to the detailed questions raised in the DP. Should you require any further comments or explanation, please do not hesitate to contact us.

ACTEO	AFEP	MEDEF
Patrice MARTEAU	François SOULMAGNON	Agnès LEPINAY
Chairman	Director General	Director of economic and financial affairs

Appendix to our letter on EFRAG DP : Towards a Disclosure Framework for the Notes

Q0. Understanding the problem and scope of the Discussion Paper

Before answering the following questions, we would like to confirm that the issues have been clearly identified in the DP, and concern both the way the IASB establishes the requirements, and the way preparers, auditors and regulators, implement them.

Q1.1/ Do you agree with these key principles? If not, what alternative principles would you propose?

We agree with the main key principles as mentioned in the "Key Principles" chapter.

We have nonetheless some reservations about the following principles, as stated below in our answers to the related questions:

- ✓ Notes should provide information such as information on risks and alternative measurements (Principle 3).
- ✓ Alternative disclosure regimes may be used (Principle 9).

Q1.2/ 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.

Q2.1/ Do you think that there is a need to define the purpose of the notes? If not, please provide your reasoning

We agree that any project aimed to improve and streamline disclosures must start by defining the purpose of the notes and what their role is in financial reporting.

We also agree that a fundamental question is to know to what extent the notes should also provide information about items that are not recognised in the financial statements. Although we agree with this question, we are much less in agreement with some of the answers that have been suggested in the rest of the document.

Finally, we also agree that when answering this question, it is important to consider the whole context of the notes. We therefore regret that the discussion paper focuses only on the disclosures appended to the financial statements, thereby scoping out the management report. While we understand that it is not within the scope of the IASB's mandate (and we agree that it should not be within its mandate), it seems inefficient not to consider it in the scope of this DP, especially with regard to the organization and rationalization of the information provided. The European Transparency Directive still imposes much relevant information about risk management, for example.

It seems thus unnecessary and inefficient to duplicate this information in the financial statements, if it was ever justified. Much information is required both under IFRS and by other regulatory sources, sometimes through a slightly different lens: duplication or juxtaposition of all this information in different parts of the reports leads to confusion and to an unnecessary increase in data.

Q2.2/ 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 fully agree with the proposed definition of the notes, that is, that the notes should be limited to the provision of relevant description of the items presented in the primary financial statements. We also agree with providing information about unrecognised arrangements, claims and rights of the entity that exist at the reporting date.

We also agree with clarification provided in paragraph 9 of chapter 2.

Q3.1 / 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 understand that the approach was to consider that what has been judged useful for reporting information as a whole (as stated in the new framework which is still work in progress) was also valuable for disclosures.

In this case we agree that the information mentioned in the notes would be useful if it provided some information on:

- ✓ The nature and amounts of the entity's economic resources and claims, and
- ✓ The changes in the entity's economic resources and claims that result either from the entity's financial performance or other events.

However, since performance is not yet appropriately defined, it is difficult to draw conclusions about the appropriate needs for disclosures, just as it would be difficult to define recognition and measurement criteria.

b. If you do not support this approach, what alternative would you support and why?

Not applicable

c. Do you think that a category on "information about the reporting entity as a whole" should be included? If so, why?

We are not certain that we understand clearly what this type of information should be and to what extent it will not duplicate the information specified in paragraph 8 a ii) about the way items are related to each other. Finally, we do not understand why it is stated that such a category should be automatically described in a prescriptive way. In conclusion, we do not have enough material on this issue to answer the question adequately.

Q3.2 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 some indicators would be useful to illustrate the way we should interpret the users' needs. However, we regret the lack of explanation provided in the DP, concerning the choice of proposed indicators. Moreover, some of them are more confusing than helpful in the illustration of the related objective pursued.

This is particularly the case for the proposed indicators about information to be provided on how items should fit into the entity's operational and financial structure. Above all, we do not see an obvious link between the objective and the required information explaining "whether the measurement basis is at cost but the item can be easily be traded on a market". As we feel that valid explanations are missing it is therefore difficult for us to comment on the proposals.

Q3.3.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?

No, we do not agree.

We support the objectives as defined in Chapter II, namely that the disclosures should only be used to explain the items linked to past transactions and thus to existing rights or claims (whether recognised or not). We also support the idea that the purpose of the notes is to provide relevant and specific information to each company.

However, we find that these objectives are not properly applied in the development of the chapters which follow, particularly when talking about risk management.

The discussion paper states in paragraph 15 that "as a complement to reported numbers showing the entity's financial situation and performance in the balance sheet and profit and loss, notes should provide information such as, but not limited to, (a) assumptions and judgments that are built into the reported numbers of items in 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."

Before commenting on each detailed complementary information proposed, we would like to highlight that the link between key principles proposed (and on which we agree) in chapter II and the additional information proposed, is far from being obvious. Indeed, except for information concerning the way that reported figures are arrived at, we see no rationale for proposing forward-looking information when the objectives are set to focus only on recognised items (or on past events / transactions not recognised but creating existing rights and claims) :

- ✓ *Information on risks that may affect these reported numbers :*

  This information refers to future events, which contradicts the idea of explaining only items recognised in financial statements. Any information which is of a highly forward-looking or speculative nature has no place in the financial statements.

We do not deny that information related to risk exposures and their management is relevant, but it is already disclosed, in a more appropriate way, in the management report. If part of this information relates to some amounts recorded in the financial statements, then a cross reference could be considered.

- ✓ *Alternative measurements where this information is relevant*

  Once again, such information involves future events and denies the objectives stated in first chapters. We are particularly concerned with the ideas developed in the paragraph 17 b) which assumes that users must be able to assess the impact of a change in the Business model, even if this change is not one that the management is considering. As stated in the first chapters, disclosures should be entity-specific and thus provided within the current Business model and not digress towards a hypothetic change that may never occur.

  In addition, the idea of an alternative measure typically illustrates one of the failures pointed out in the introduction to this DP, i.e. the tendency of the IASB to compensate for perceived shortcomings in the measurement / recognition principles by requiring disclosures.

In relation to the information about assumptions and judgments used to measure the amount of reported items, we believe that this is more in line with the proposed objectives for the notes, as it may help the user to understand items existing at the closing date. However, one should be very cautious with this requirement as some may interpret it in a very particular way, and infer that complete and detailed information about future results may be required in this context. Finally, such information should not be viewed as the provision of data for those who would like to recalculate the measurements: notes are not and should not become an auditing tool.

Q3.4 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 do think that the process surrounding disclosure requirements should change, as we believe that the current practice has led to an exponential growth of disclosures, with no overall consistency. Actually, each staff member in charge of a particular standard seems to ignore the big picture that the notes should form if we want them to become a valuable and meaningful element of financial communication.

First, we agree with the main general principles stated in paragraph 39, although we may have some reservations about the idea of developing alternative disclosure regimes.

The question of the different approaches that the standard setter could take is one of the key aspects of this debate on the future of disclosures.

[Our approach would be similar to that described as "General Disclosure Requirements" in Table 1 under paragraph 40 of the DP.] Our proposals are as follows:

- ✓ A dedicated standard should be developed to establish users' needs and objectives for disclosures. Actually, we do not think that just including a "disclosure objective" in the conceptual framework would be sufficient, given the framework's low level in the hierarchy compared to the standards.

- ✓ Each standard may provide some illustrative examples to explain how these general objectives might be applied to each particular type of assets / liabilities or transactions. Such illustrative guidance would not be part of the core principle of the standard and must not be binding on preparers.
- ✓ Within this framework, preparers would be accountable for their notes and must apply their judgment in determining the relevant specific information to be disclosed.

We are aware that this “perceived discretion” is in fact far more of a constraint than complying with a “check list” approach but we believe that this model fits better with the idea of principle-based standards that IFRSs are intended to be. Preparers should be accountable for their financial reporting, and adjustments will subsequently be made by the market (users’ specific demands, sector benchmarks, etc.).

Q3.5 Do you think that establishing alternative disclosure requirements is appropriate?

While we understand the rationale behind this proposal to establish different regimes for different entity types or sizes, we are sceptical about its feasibility. We agree with the challenge pointed out in paragraph 67, namely that it will be difficult to identify suitable differentiating criteria. We also believe that a correct application of the materiality principle should help in alleviating concerns about the appropriate level of proportionality.

Q4.1 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 we agree, although we are aware that such an approach will not be as easy to implement as the current practice is. In fact, it is often safer for both preparers and auditors, to provide the whole of the disclosures required, even when information is not material and thus not relevant. If we consider the emphasis on this materiality concept, coupled with disclosure requirements limited to general objectives, we expect that auditors and regulators will put greater pressure on preparers and challenge their judgement. It seems to us, however, that this is a price worth paying for more relevant disclosures, and we hope that everyone will act in the same spirit, ie that auditors, regulators and other organizations will not try to fill the space that is left to the judgment of the entity.

Q4.2 Do you think that a Disclosure Framework should include guidance for applying materiality? If you disagree, please provide your reasoning.

No, we do not. We believe that materiality is already appropriately defined in IAS 1 and as it should remain an entity-specific notion, it does not need additional guidance.

Materiality should be assessed in the context of the specific circumstances and therefore it should not be standardized, but rather only explained and defined on the basis of principles.

We therefore do not see much point in proposed indicators, unless they are presented within non-mandatory illustrative guidance.

Q4.3 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 agree that materiality should be assessed in a continuous way and we also support conclusions stated in paragraphs 42 and 43, namely:

- ✓ Disclosures are not required if the information is immaterial.
- ✓ Disclosures are not required for every line item presented in the primary financial statements unless the information is material.

Indeed, as proposed in paragraph 12, materiality should be assessed not in the light of the importance of the reported item, but rather by considering the significance of the information that may be provided. We believe that the example developed in paragraph 12, and the accompanying flowchart may help to facilitate the application of the materiality concept.

Q5.1Would the proposed communication principles improve the effectiveness of disclosures in the notes? What other possibilities should be considered?

Yes we agree.

We believe that some complex transactions that affect multiple items should be disclosed within one single note, rather than scattered through several notes.

We also agree that some disclosures should not be systematically reproduced each year, but only when relevant.

Q5.2 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 believe that a flexible approach fits better with the objective set in the first chapters, as it helps promote the provision of specific information in alignment with each entity's priorities. We also believe that prioritising and grouping information will help provide more relevant notes.

Q6.1 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 suggest that the next EFRAG document on this topic should also encompass analysis about interim financial reporting.

Furthermore, the IASB should refrain from requiring new additional mandatory interim disclosures each time a new standard is published. There is a good and clear principle defined in IAS 34 that does not need to be supplemented by rules.