EUROPEAN FEDERATION OF ACCOUNTANTS AND AUDITORS FOR SMES

EFAA President, 4 Rue Jacques de Lalaingstraat, 1040 Brussels

Bodo Richardt
President

4 Rue Jacques de Lalaingstraat
B-1040 Brussels
T +32 2 736 88 86
bodo.richardt@efaa.com

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Brussels, 22nd September 2017

Dear Sir or Madame,

**Response to the Discussion Paper DP/2017/1 *Disclosure Initiative—Principles of Disclosure***

EFAA commends the IFRS Foundation on the *Discussion Paper DP/2017/1 Disclosure Initiative—Principles of Disclosure*. We are pleased to provide our comments below, both 'General Observations' as well as 'Specific Comments' on the questions posed in the DP that have relevance to EFAA's constituency. Our comments have been compiled by EFAA's Accounting Expert Group.

**About EFAA**

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 17 national accounting, auditing and tax advisor organisations with more than 370,000 individual members.

**General Observations**

EFAA is responding to this discussion paper, not because many SMEs in Europe prepare accounts using IFRS, but because we believe that the IASB could have an important influence over how disclosure requirements are set in the national accounting standards that are applicable to SMEs in Europe. National standards in Europe are influenced by IFRS as our Trickle-Down study showed in respect of recognition and measurement issues. The same is likely to be true to some extent for disclosures.

The disclosure problem exists for some SMEs, though to a lesser extent than for listed companies using IFRS. The principle of materiality applies to SME financial statements in Europe (via the Accounting Directive). We think it would be helpful if IASB could take the lead by setting disclosure requirements with a disclosure objective and then specific instances set out, making it clear which are compulsory in all cases and which are subject to materiality considerations.

**Specific Responses to Questions Posed in DP**

***Question 1.***

***(a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?***

*Following the revision of the Accounting Directive the disclosure problem for SMEs in Europe is different than for listed companies using IFRS. For small companies the maximum harmonisation approach means that the disclosure requirements are limited and so the problem of excessive note disclosures will likely not be significant.*

*For medium-sized companies the disclosure requirements may be more extensive and therefore the disclosure overload issue and the development of a checklist approach may be a greater risk.*

*Both small and medium-sized companies are required to provide whatever information is needed for the financial statements to give a true and fair view. The potential exists for there to be insufficient relevant information.*

*Improving financial statements as a means of communication is a desirable outcome of this project.*

*The IASB needs also to consider whether part of the disclosure problem has been the level of disclosures they have set in the different standards. Furthermore, as discussed in response to Q15 below, the way the standards are written contributes to the problem by a lack of consistency and fosters the development of a 'checklist mentality.*

***(b) Do you agree that the development of disclosure principles in a general disclosure standard (i.e. either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?***

*We agree the development of disclosure principles would go some way to address the disclosure problem. However, changing the specific disclosures at a standards level will also be necessary to tackling the problem.*

***Question 2. Are there any other disclosure issues that the Board has not identified in this Discussion Paper that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?***

*Part of the disclosure problem lies with the behaviours and approaches of preparers, auditors, regulators and others involved in the financial reporting process. IASB's contribution to changing those should be in setting the principles of disclosure and of effective communication (see Q3 below) to provide the overall objectives, but also in amending the specific disclosures within the standards to reflect those principles to ensure a consistent position. Hence, we believe a standards level project is also needed in this regard.*

*In developing this project IASB should be careful that their proposals take sufficient account of developments in digital presentation of information and reports and do not simply address the printed paper / PDF instance that may be the current dominant approach.*

***Question 3.***

***(a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not?***

*We agree that the IASB should develop principles of effective communication.*

***(b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why?***

*We agree with the principles as drafted.*

***(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance?***

*We believe principles of effective communication should be included in IAS 1 or a general disclosure standard. In addition, non-mandatory guidance containing illustrative examples, including ones of particular relevance to SMEs, would be well received.*

***(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?***

*We believe that non-mandatory guidance should be developed for this issue.*

***If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.***

*This should be in the form of examples or illustrations supporting IAS 1.*

***Question 5. The Board's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c).***

***(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?***

*We agree with the IASB's preliminary view as cross referencing can reduce unnecessary duplication. We agree with the requirements as set out in paragraphs 4.9(a)-(c), including the requirements that the financial statements must remain understandable on their own, and that cross-referenced information should only be included in the annual report.*

*We agree with the advantages of providing a principle rather than specific requirements in the standards as set out in paragraph 4.16.*

***Question 6. The Board's preliminary view is that a general disclosure standard:***

- ***should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but***
- ***should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c).***

*__Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?__*

*We are considering the principle which might be applicable to accounting standards in general rather than IFRS in particular. We agree that entities should not be prohibited from including non-standard information as the information provided may be useful to users in making decisions.*

*We consider that some non-standard information is complementary (such as physical quantity information) and needs no special label.*

*Other information may be alternative financial measures calculated on a different basis than equivalent standardised measures. These would need to be clearly labelled as such and, if applicable, unaudited. They should also be reconciled to the standard information.*

*__Question 7. Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?__*

*We believe the IASB should prohibit the inclusion of additional information that has the potential to be misleading, but what is misleading may not be possible to be specified further and the judgement will have to be left to management and the auditors.*

*__Question 9. The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34. Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?__*

We agree that alternative performance measures can be useful and agree with the disclosure requirements as described in paragraph 5.34, for example:

Having no more prominence than the standard measure

- Reconciled to that measure
- Explained as to why relevant
- Neutral, free from error, clearly labelled
- Contain comparatives
- Classified, measured and presented consistently
- Be clear whether they have been audited or not

*__Question 15. Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.__*

*In our view, the current drafting of standards is a contributing factor to the disclosure problem.*

*Most standards state* "The following shall be disclosed…" *where* 'shall' *is used to denote mandatory requirements. However, there may be other statements that the requirements only apply to material matters, as in IAS1.*

*Standards need to be written to be clear which disclosures are subject to a materiality threshold and which are not.*

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours faithfully,

Bodo Richardt

President