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The Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
NORWALK CT 06856 – 5116  
USA

**The Group of 100 Incorporated**

Level 20, 28 Freshwater Place  
Southbank VIC 3006 AUSTRALIA  
[www.group100.com.au](http://www.group100.com.au)  
Telephone: (03) 9606 9661  
Facsimile: (03) 9670 8901  
Email: [g100@group100.com.au](mailto:g100@group100.com.au)  
ABN: 83 398 391 246

Dear Sir/Madam

### **Disclosure Framework**

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness.

**The G100 strongly supports the FASB's initiative to address the current volume, complexity and detail of disclosures required by accounting standards by developing a disclosure framework.**

**The G100 has been concerned about this issue for several years and, in 2009, published proposals "Less is More" in conjunction with PricewaterhouseCoopers ([www.group100.com.au/publications](http://www.group100.com.au/publications)). In that paper the G100 indicated that the development of a principles-based disclosure framework should be a high priority project for standard-setters and outlined principles based on materiality, relevance and transparency.**

#### **CHAPTER 1 SCOPE AND INTRODUCTION**

**Q1** *The details of this Invitation to Comment do not focus on the informational needs of donors to not-for-profit organisations. How, if at all, should the Board's decision process (see Chapter 2) be supplemented to consider the needs of donors? How, if at all, should not-for-profit reporting entities modify their decision-making process (see Chapter 4) for the needs of donors when deciding which disclosures to include in notes to financial statements? The G100 believes that the initial focus of the project should be on for-profit entities.*

#### **CHAPTER 2 THE BOARD'S DECISION PROCESS**

**Q2** *Do the decision questions in this chapter and the related indicated disclosures encompass all of the information appropriate for notes to financial statements that is necessary to assess entities' prospects for future cash flows?*

**Q3** *Do any of the decision questions or the related indicated disclosures identify information that is not appropriate for notes to financial statements or not necessary to assess entities' prospects for future cash flows?*

**Q4** *Would these decision questions be better applied by reporting entities instead of the Board? In other words, should the Board change its practice of establishing detailed requirements in each project and, instead, establish a single overall requirement similar to the questions in this chapter?*

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*Q5 Do you think that this decision process would be successful in helping the Board to set more effective disclosure requirements? If not, what would be a better approach?*

**The G100 believes that the disclosure framework should address the tension between specifying detailed disclosures in each accounting standard as presently occurs in most circumstances and the views that a disclosure objective should be specified and that the board and management determine the disclosures which satisfy that objective. In the latter circumstances the directors and management would be identifying and responding to the information needs of shareholders and other users.**

**As outlined in "Less is More" the G100 considers that there is an intermediate and pragmatic approach which involves inclusion of a disclosure objective in each standard with core disclosures required under the standard and any additional 'voluntary' disclosures to satisfy the disclosure objective determined by the board and management.**

**Under this approach the standard-setter would apply the disclosure framework and key questions to determine the core disclosures. For example, in respect of defined benefit pension plans a core disclosure may be the pension expense recognised in the period with additional disclosures relating to its composition etc being determined by the board and management depending on the entity's circumstances and the environment in which it is operating including any significant changes from period to period.**

**The questions outlined in Chapter 2 appear to be reasonable in eliciting relevant information about the entity, its operating performance and financial position. However, much of the general information is already provided elsewhere in the annual report and would add to be clutter in financial statements. The listing of 'items to be considered for disclosure' are of concern because they are likely to become regarded as 'in substance' requirements as they will be incorporated in the sets of model accounts of the major accounting firms. Our present experience is that the existence of these model accounts tends to be regarded as the default requirements whether or not they are relevant and material to the entity and are inconsistent with facilitating the exercise of judgement. As such, the G100 considers that they are best regarded as questions considered by the standard-setter in determining the core set of disclosures.**

### **CHAPTER 3 MAKING DISCLOSURE REQUIREMENTS FLEXIBLE**

*Q6 Would any of the possibilities in this chapter (see paras 3.8 and 3.11) be a practical and effective way to establish flexible disclosure requirements?*

*Q7 If more than one approach would be practical and effective, which would work best?*

*Q8 Are there other possibilities that would work better than any of those discussed in this chapter?*

**The G100 agrees that unnecessary voluminous disclosures increase compliance costs for companies and add to the difficulties of shareholders and other users in identifying which information is relevant to their purpose.**

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The G100 considers that the approach most likely to be agreed is one where the standard-setter applies the questions, say those in Chapter 2, to determine a core set of disclosures to be provided by reporting entities with directors and management supplementing those disclosures in order to satisfy the disclosure objective. The provision of a core set of disclosures would meet concerns about the inter-entity comparability. The additional disclosures made by entities in the same industry/competitors would be driven by the market and would tend to cluster around a norm in order to meet the needs of shareholders and other users. In these circumstances the additional disclosures would be driven by the need to meet the needs of shareholders and other users rather than complying with a mandated "one size fits all" approach which is most favoured by standard-setters. This is in part, recognised in the discussion in paras 4.20 and 4.21.

#### **CHAPTER 4 REPORTING ENTITIES' DECISIONS ABOUT DISCLOSURE RELEVANCE**

**Q9** *This chapter attempts to provide a benchmark for judgments about disclosure relevance by clarifying the objective for the judgments. Is the description of the approach clear enough to be understandable? If not, what points are unclear?*

**Q10** *Can this approach (or any approach that involves describing the objective for the judgments) help identify relevant disclosures? If so, what can be done to improve it? If not, is there a better alternative? What obstacles do you see, if any, to the approach described?*

**Q11** *Reporting entities would need to document the reasons for their decisions about which disclosures to provide. How would reporting entities document the reasons for their disclosure decisions and how would auditors audit those decisions?*

*The Board asks that respondents help assess the practicality of the possible guidance in this chapter and its potential for improving disclosure effectiveness by applying it to some or all of the notes in their prior period financial statements. Please provide information about the results of that test that is as specific as possible.*

**The G100 agrees with the introduction of greater flexibility in how reporting entities meet the disclosure objective in each accounting standard while satisfying an overriding requirement that the financial statements providing a true and fair view.**

**The G100 considers that the standard-setter should apply the criterion in para 4.4 for relevant disclosure (information that can change users' assessment of prospects for cash flows by a material amount) in determining a core or minimum level of disclosure.**

**The proposed disclosure framework and approach to disclosures in accounting standards should be more explicit in giving directors and management greater licence to exercise judgement as to which disclosures are relevant and material to the entity, its shareholders and other users. Since materiality has both quantitative and qualitative dimensions and different users ascribe different meanings as to what constitutes materiality for their purposes it is important that directors and management are able to exercise judgement. It is common practice for directors and management to document decisions about accounting policies and practices and judgements exercised in the preparation of the financial statements and notes thereto including the role of the audit committee and discussions with auditors. As such, documentation of judgements made in relation to disclosure decisions would be consistent with current practice.**

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As indicated earlier the existence of model accounts including disclosure checklists tends to be a significant contributor to entities making disclosures which are not relevant or material to their circumstances. Rather than engage in extended and costly discussions with auditors, directors and management tend to follow an expedient and conservative approach. This is an issue for directors and management to address in discussions with auditors and, if needed, regulators. However, this needs to be accompanied by a change in the approach to the judgements made by directors and management and expectations of both auditors and regulators.

It is also important not to lose sight of the fact that the directors have the primary responsibility for the preparation and presentation of the financial statements in accordance with legal requirements and that the auditors are expressing an opinion in those financial statements with the regulator being responsible for enforcing the relevant legislation.

#### **CHAPTER 5 FORMAT AND ORGANISATION**

**Q12** *Would any of the suggestions for format improve the effectiveness of disclosures in notes? If so, which ones? If not, why not.*

**Q13** *What other possibilities should be considered?*

**Q14** *Do any of the suggested methods of organizing notes to financial statements improve the effectiveness of disclosure?*

**Q15** *Are there different ways in which information should be organized in notes to financial statements?*

The G100 believes that flexibility in presentation of the notes and more consideration given to the readability of the content would contribute to aiding the understanding by shareholders and other users. Adoption or extension of approaches to the formatting and presentation would be helpful. In addition, the existence of a disclosure framework may induce standard setters to take a more holistic approach to disclosures rather than one based on each standard being considered in isolation. The suggestions made in Chapter 4 in relation to format would improve the effectiveness of the communication but would rely on directors and management having more freedom to exercise judgement.

The G100 does not have any particular preferences for the order in which the notes are presented. While specifying an order may have its attractions in enabling users to locate particular notes, this is readily achieved with the inclusion of an index. We believe that the directors and management should have the flexibility to determine the format and organisation of the notes which, in their judgement, best meets the needs of shareholders and other users.

#### **CHAPTER 6 DISCLOSURES FOR INTERIM FINANCIAL STATEMENTS**

**Q16** *Do you think that any of the possibilities in this chapter would improve the effectiveness of disclosures for interim financial statements?*

**Q17** *If you think that a framework for the Board's use in deciding on disclosure requirements for interim financial statements would improve the effectiveness of interim reporting, what factors should the Board consider when setting disclosure requirements for interim financial statements?*

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**Q18** *If you think that a framework for reporting entities' use in deciding on disclosures for interim financial statements would improve the effectiveness of interim reporting, what factors should reporting entities consider when providing disclosures for interim financial statements?*

**Q19** *What impediments do you see regarding the development of a framework for the Board, reporting entities, or both that addresses disclosures for interim financial statements?*

**The purpose of interim financial statements is to provide an update on progress and changes since the presentation of the annual financial statements. They are not intended to be replication of the annual financial statements. The G100 believes that the provision of interim financial statements and compliance with other legislative requirements - such as the continuous disclosure regime in Australia - when considered in conjunction with the previous set of annual financial statements, provides shareholders and other users with sufficient information on which to base their decisions.**

**While a disclosure framework applicable to interim reports may be helpful, the G100 believes that, at this stage, the focus should be on dealing with issues relating to the annual financial statements. Once that occurs many of the concerns about interim reports may also be resolved.**

#### **CHAPTER 7 OTHER MATTERS FOR DISCUSSION**

**Q20** *Would the change to the requirements described in para 7.8 for disclosure of the summary of the accounting policies improve the effectiveness of disclosure?*

**Q21** *Should the summary of accounting policies include information about industry-specific accounting policies?*

**The G100 believes that the present disclosures of accounting policies are not helpful to users of financial statements because they are voluminous, tend to restate the requirements of accounting standards and do not often clearly identify where accounting policy choices have been made. We consider that much of the present content could be provided on a company's website. The accounting policy note should state compliance with the set of accounting standards applied, say IFRS or US GAAP, and focus on key factors such as the choices between alternatives permitted in accounting standards, changes in accounting policies and industry-specific approaches not dealt with in accounting standards.**

**Q22** *Are there other required disclosures that could be modified or eliminated in the short term that would result in a significant reduction in the volume of notes to financial statements?*

**The G100 believes that the extent and detail of the disclosures relating to pension plan liabilities and share-based payments are excessive and are unlikely to be useful to shareholders and other users. In addition, standard-setters are inclined to require disclosure of reconciliations and the movement in balances from the beginning to the end of the period, for example, property, plant and equipment. A review of the relevance and usefulness of reconciliations and the extent to which they are necessary would contribute to a reduction in the volume of notes.**

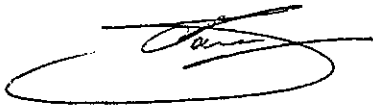
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**CONCLUSION**

As indicated in the G100/PwC publication "*Less is More*", reducing the volume, detail and complexity of the notes to the financial statements addresses one dimension of the problem. Perhaps of more significance, and which will be more difficult to achieve, is the need to achieve cultural change on the part of the directors and management, auditors and regulators as well as the belief by analysts that more information must be better.

The G100 believes that the application of a disclosure framework based on disclosure principles in conjunction with a concerted effort for cultural change by all key stakeholders will assist in driving enhanced quality and usefulness of financial statements to end users.

Yours sincerely  
**Group of 100 Inc**

A handwritten signature in black ink, appearing to read "Terry Bowen", is written over a large, hand-drawn oval scribble.

**Terry Bowen**  
President