Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM
commentletter@efrag.org

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Re: Towards a Disclosure Framework for the Notes

Dear Françoise,

We are pleased to provide our comments on the discussion paper Disclosure Framework, issued by EFRAG, ANC and FRC in 2012.

We, at the OIC, broadly support the paper, as we believe that the disclosure communicated in the financial reporting needs to be reorganized in a more effective and clearer way. Therefore, we express our full support for the reasons that led EFRAG and its partners to undertake the project. We express, also, our support to the key principles identified in the paper and to the way the analysis has been conducted.

That said, there are some points on which we have specific comments to highlight to you.

The paper states that one of the main areas in which it is necessary to improve the quality of disclosure is "enhancing how disclosure are organized and communicated in the financial statements, to make them easier to understand and compare". From this point of view, we believe that it should be stated with more emphasis that the comparability is a key characteristic of financial statements and that comparability implies a certain degree of standardization on how disclosure is provided.

The concept of standardization should be added to the key principles that drive the standard settings activity regarding the disclosure. To this respect, we believe that could be useful, in order to make the concept more operational, to segment the disclosure in "core disclosure" – to be provided hopefully in a standardized manner (i.e. basic, generally agreed tables on fundamentals aspects) – and "other disclosure" – to be provided in a more tailored manner (i.e. tables developed following an entity-specific perspective, based on what is considered material by the entity) according to the flexible approach described in chapter 5 (paragraph 37); to the extent possible, the identification of what to consider as "core disclosure" should be made by the standard setter and not by the management. The recent experience of the markets crisis suggests that in some specific and extremely relevant area of the disclosure (in particular the risk disclosure) it is very important to standardize a minimum degree of disclosure to compare in an effective way entities operating in different jurisdictions. We are aware that such an approach could imply the need to verify on a continuous basis what information should be regarded to as "core" and what not, but this effort would give the guarantee that users' needs are satisfied on a timely basis.

Moreover, the principle 4 seems introducing a new approach in the elaboration of accounting standards (“the usefulness of information is assessed as a whole”), according to which a standard setter, when defining a new standard, should assess the “full package” of all rules (recognition, measurement, presentation, disclosure). This proposal seems going beyond the scope of the document (i.e. disclosure).

Following this approach, a specific measurement rule could be preferred to another one because – considering each one with the related disclosure requirement – it provides *ceteris paribus* “a more useful information” or is less expensive.

The current standard setting is based on a different logic: there is an accepted implicit hierarchy which considers recognition and measurement rules the drivers and the disclosure rules an appendix of them. Therefore, standard setting focuses first in the choice of accounting rules, on the basis of their intrinsic merits. After, disclosure rules are defined. Such a principle cannot lead to consider disclosures as a substitute of proper recognition rules. Concluding, the proposed approach seems inconsistent also with the key principle 5 which postulates a “distinct objective” . We think a deeper analysis is needed on that.

Another point we would like to comment is the general objective of the disclosure framework: *“To ensure that all and only relevant information is disclosed in an appropriate manner, so that detailed information does not obscure relevant information in the notes to the financial statements”*.

The principle seems to suggest, implicitly, an incompatibility between the relevance and the degree of detail (i.e. a detailed information cannot be relevant), which is not always true. For instance, the list of consolidated entities (i.e. subsidiaries consolidated using the integral method) is a truly relevant information, even if detailed. So we suggest to clarify that, depending on the type of information, relevance could mean providing synthetic or granular data.

There is another dimension of relevance, which is linked to the analysis of reported figures through the time (time-series analysis): if a preparer has to disclose “only” information which is relevant at the reporting date, some line-items could be disclosed in an irregular manner over time (on/off). This could prevent a complete analysis of the trend. Also a negative information (i.e. nil) could be a relevant information.

Eventually, we have some concerns on the interaction among the principle of proportionality and the principles of relevance and materiality. On the paper is said that *“Disclosure requirements should achieve proportionality to the entity’s users’ needs, and meet a reasonable cost-benefit trade-off in all circumstances. Alternative disclosure regimes may have to be put in place to achieve proportionality”*.

We understand that proportionality should be a guiding principle for the standard setting in general, not only for disclosure requirements. However, has to be considered also that a “natural” application of the proportionality principle derives from the application of the relevance (standard setters) and materiality (preparers) principles and from the fact that small entities have in general operating activities simpler than the bigger ones. So the principle of proportionality, if not applied providing different standards for different categories of companies (e.g. SMEs), seems redundant in relation to relevance and materiality principles.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)