



DISCLOSURE REQUIREMENTS IN IFRS STANDARDS – A PILOT APPROACH – PROPOSED AMENDMENTS TO IFRS 13 AND IAS 19

Issued 5 November 2021

ICAEW welcomes the opportunity to comment on the *Disclosure Requirements in IFRS Standards – A Pilot Approach – Proposed amendments to IFRS 13 and IAS 19* published by IASB in March 2021, a copy of which is available from this [link](#).

While ICAEW welcomes the development of objectives-based disclosure requirements, we are concerned that the removal of requirements to disclose specific items may lead to an overall worsening of disclosures in practice and is likely to impair comparability. We are also concerned that the overall and specific disclosure objectives as drafted for the two test standards are too high-level and boilerplate. They also fail to adequately explain what information financial statement users need and how they will use it.

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KEY POINTS

ADDRESSING THE DISCLOSURE PROBLEM

1. ICAEW has always been and continues to be supportive of the Disclosure Initiative. We welcome the Board's continued efforts to address the disclosure problem and the publication of its recent exposure draft addressing how they can improve the effectiveness of disclosures provided by financial statements prepared in accordance with IFRS standards.
2. We also welcome the development of objectives-based disclosure requirements and the proposal to work more closely with users of financial statements and other stakeholders early in the standard-setting process to understand what information they need and how they intend to use it. We are, however, concerned that the emphasis on meeting objectives rather than disclosing specific items may lead to an overall worsening of disclosures in practice and is likely to impair comparability.

DISCLOSURE OBJECTIVES

3. We agree that disclosure objectives are potentially a useful way to help entities, auditors and regulators better understand the overall information needs of users of financial statements and to determine what disclosures will meet those needs. In particular, we believe that, if they are properly framed and explained, specific disclosure objectives can greatly assist entities when assessing whether or not information is material.
4. We are, however, concerned that the overall disclosure objectives as drafted for the two test standards are so high-level that they provide little clarity for entities on how to assess the materiality of information.
5. Moreover, although the specific disclosure objectives are intended to explain how users will use information, we are concerned that the specific disclosure objectives as drafted for the two test standards sometimes do this in a way that is quite boilerplate and fails to provide adequate insight for entities. If specific disclosure objectives are to be effective, they need to be supported by clear and granular explanations of what information users want and how and when that information is used. Only then will preparers be able to apply a materiality filter and assess whether a disclosure is needed in the current year and, if so, what information needs to be provided.
6. See our answers to questions 1-2 below for more details.

SYMPATHY FOR THE ALTERNATIVE VIEW

7. We have some sympathy with the alternative view put forward by Mr Edelmann, Mr Gast and Ms Lloyd as we believe that poor application of professional judgement and poor assessment of the materiality of individual disclosures contribute to the disclosure problem – though we do believe that the current lack of guidance on how information will be used exacerbates the issues around materiality judgements.
8. See our answer to question 3 below for more details.

OUR PREFERRED APPROACH

9. We would prefer an approach that sets out specific disclosure objectives with:
 - a list of disclosures that are required if they are considered material to users of the financial statements; and
 - an overarching requirement to consider whether any further information or explanations are needed to ensure that the relevant disclosure objectives are met.

10. This would mean that the category of ‘non-mandatory’ disclosures in each standard would be removed. Instead, we suggest retaining a more comprehensive list of disclosures – including all or most of those disclosures currently listed as mandatory and non-mandatory in the draft amendments – that would be required if they are considered to be material to meeting the objectives in light of users’ needs. Entities would then need to exercise judgement to determine whether they should add supplementary information and explanations where this is needed to give users a full understanding of their particular situation.
11. See our answer to question 3 below for more details.

FAIR VALUE DISCLOSURES

12. Having reflected on the Board’s draft of overall and specific disclosure objectives, we consider that IFRS 13 *Fair Value Measurement* should deal only with fair value measurement and should not include disclosures.
13. In our view, the key to the disclosure problem is to properly explain specific user needs. As these needs are primarily driven by the nature of the underlying item rather than by the fact that it is measured at fair value, we believe that the related fair value disclosure requirements should instead sit in the standard requiring the fair value measurement (or in the case of financial instruments, IFRS 7 *Financial Instruments: Disclosures*).
14. See our answers to questions 6-11 below for more details.

THE USE OF TECHNOLOGY

15. We raised a number of points on the subject of technology and how, over time, developments in this area may influence the production, presentation and analysis of financial statements in our response to the Board’s March 2017 Discussion Paper *Disclosure Initiative – Principles of Disclosure*. Many of these points still stand. We therefore refer the Board to our earlier comment letter.

ANSWERS TO SPECIFIC QUESTIONS

The proposed Guidance for developing disclosure requirements in IFRS Standards in future

Question 1 – Using overall disclosure objectives

Paragraphs DG5–DG7 of this Exposure Draft explain how the Board proposes to use overall disclosure objectives in future.

- (a) **Do you agree that the Board should use overall disclosure objectives within IFRS Standards in future? Why or why not?**
- (b) **Do you agree that overall disclosure objectives would help entities, auditors and regulators determine whether information provided in the notes meets overall user information needs? Why or why not?**
16. We agree that disclosure objectives are potentially a useful way to help entities, auditors and regulators better understand the overall information needs of users of financial statements and to determine what disclosures will meet those needs.
17. Such objectives will, however, only help to address the disclosure problem if they clearly articulate those information needs and how they can be addressed through disclosure. We are not convinced that the overall disclosure objectives as drafted for the two test standards are particularly helpful in this regard as they are so high-level and open-ended that they risk becoming meaningless. In particular, we believe that inconsistent judgements around materiality by preparers, auditors and regulators are one cause of the disclosure problem

and that overall disclosure objectives are unlikely to be sufficiently specific as to assist with materiality judgements.

18. We question whether each individual IFRS standard should include overall disclosure objectives as it is likely that they will be of limited value and will result in a great deal of repetition from one standard to the next. Our preference would be for overall disclosure objectives to be included centrally within IAS 1 *Presentation of Financial Statements* with more specific and granular disclosure objectives included within individual standards. If those specific disclosure objectives are well drafted, we believe that they would capture all disclosures that would otherwise have been required by an overall disclosure objective.

Question 2 – Using specific disclosure objectives and the disclosure problem

Paragraphs DG8–DG10 of this Exposure Draft explain how the Board proposes to use specific disclosure objectives in future.

- (a) **Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would help entities apply judgements effectively when preparing their financial statements to:**

- (i) **provide relevant information;**
- (ii) **eliminate irrelevant information; and**
- (iii) **communicate information more effectively? Why or why not? If not, what alternative approach would you suggest and why?**

- (b) **Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would provide a sufficient basis for auditors and regulators to determine whether an entity has applied judgements effectively when preparing their financial statements? Why or why not?**

19. We agree that overall disclosure objectives need to be supported by specific – more granular – disclosure objectives within individual standards.
20. We believe that specific disclosure objectives which clearly explain how information is used by the primary users of financial statements would be beneficial to preparers, auditors and regulators when applying judgement to determine which disclosures are material and which are not. They would also be useful when assessing whether extra disclosures – beyond those which are mandated – are needed.
21. We acknowledge that there are inherent difficulties in drafting specific disclosure objectives as the needs of different users of the financial statements are wide and varied. We are, nonetheless, concerned that the specific disclosure objectives, as drafted for the two test standards, are not particularly helpful as they are again too high-level.
22. For example, paragraphs 147D and 147E of the proposed revisions to IAS 19 *Employee Benefits* read very much like boilerplate text as they could easily be inserted into any other standard by replacing the words ‘defined benefit plans’ with the relevant subject of that standard. These paragraphs add little value and are unlikely to change how preparers, auditors and regulators approach determining what disclosures are needed, especially as they are backed up by a mandatory list of disclosures in paragraph 147F.
23. If such objectives are to be effective, they need to be supported by clear and granular explanations of what information users want and in what circumstances that information is used. Only then will preparers be able to apply a materiality filter and assess whether a disclosure is needed in the current year and, if so, what information needs to be provided. High-level objectives such as those referred to above are not sufficient on their own.
24. In general, we found the explanations provided in the draft Basis for Conclusions more helpful than those included in the draft standard when understanding how information might

be used. When drafting disclosure requirements in future, we recommend that the Board includes such explanations within the Standard itself, as they are fundamental to assessing materiality and whether extra disclosures are needed.

Question 3 – Increased application of judgement

Paragraphs DG2–DG3 and DG8–DG13 of this Exposure Draft explain why, in future, the Board proposes to:

- (a) use prescriptive language to require an entity to comply with the disclosure objectives.**
- (b) typically use less prescriptive language when referring to items of information to meet specific disclosure objectives. An entity, therefore, would need to apply judgement to determine the information to disclose in its circumstances.**

This approach is intended to shift the focus from applying disclosure requirements like a checklist to determining whether disclosure objectives have been satisfied in the entity's own circumstances. Paragraphs BC188–BC191 of the Basis for Conclusions describe the likely effects of this approach on the behaviour of entities, auditors and regulators towards disclosures in financial statements. Paragraphs BC192–BC212 of the Basis for Conclusions describe the likely effects of this approach on the quality of financial reporting, including the cost consequences of the approach.

- (a) Do you agree with this approach? Why or why not? If not, what alternative approach do you suggest and why?**
- (b) Do you agree that this approach would be effective in discouraging the use of disclosure requirements in IFRS Standards like a checklist? Why or why not?**
- (c) Do you agree that this approach would be effective in helping to address the disclosure problem? For example, would the approach help entities provide decision-useful information in financial statements? Why or why not?**
- (d) Do you agree that this approach would be operational and enforceable in practice? Why or why not?**
- (e) Do you have any comments on the cost of this approach, both in the first year of application and in subsequent years? Please explain the nature of any expected incremental costs, for example, changes to the systems that entities use to produce disclosures in financial statements, additional resources needed to support the increased application of judgement, additional audit costs, costs for users in analysing information, or changes for electronic reporting.**

Our thoughts on the Board's proposed approach

- 25. We agree that the 'checklist approach' that is applied by some preparers, auditors and regulators contributes to the disclosure problem and that steps need to be taken to change the mindset that sees disclosures as a compliance exercise rather than a means of effective communication with users of the financial statements. We are therefore supportive of the Board's efforts to address this issue.
- 26. We are not, however, against the use of checklists *per se*. We believe that an appropriate checklist applied in an appropriate manner can improve the quality and comparability of financial reporting. However, we agree that entities, regulators and auditors can place too much reliance on checklists without applying an appropriate materiality filter, resulting in professional judgement being usurped by a focus on minutiae. It should, however, also be acknowledged that some of the problem lies in how existing Standards are drafted; voluminous disclosure requirements that often lack clear explanations of their relevance can hinder effective materiality judgements.

27. We have some sympathy with the alternative view put forward by Mr Edelmann, Mr Gast and Ms Lloyd as we believe that poor application of professional judgement and poor assessment of the materiality of individual disclosures contribute to the disclosure problem – though we do believe that the current lack of guidance on how information will be used exacerbates the issues around materiality judgements.
28. We are concerned that the proposed shift towards a less prescriptive approach and the removal, in many cases, of the requirement to disclose specific items may lead to an overall worsening of disclosures in practice as preparers may struggle to apply their judgement when attempting to determine what information, if any, from a lengthy list of ‘non-mandatory’ information is required to meet the needs of users of the financial statements.
29. Some preparers may decide to include all the ‘non-mandatory’ items to be on the safe side, especially if they operate in countries with particularly litigious environments. Others may simply ignore all ‘non-mandatory’ items and look to disclose as little as possible.
30. We are therefore concerned that the emphasis on meeting objectives rather than disclosing specific items is likely to impair comparability, particularly internationally. In turn, this could increase costs for certain users (eg, analysts) by necessitating additional analysis when they seek to compare the performance and financial position of different companies.
31. Auditors and regulators may also find it difficult to enforce requirements that place so much reliance on the preparer’s assessment of user needs when at present they are often primarily focussed on whether or not a particular item has been disclosed in the financial statements.

Our preferred approach

32. We would prefer an approach that sets out specific disclosure objectives with:
 - a list of disclosures that are required if they are considered material to users of the financial statements; and
 - an overarching requirement to consider whether any further information or explanations are needed to ensure that the relevant disclosure objectives are met.
33. This would mean that the category of ‘non-mandatory’ disclosures in each standard would be removed. Instead, we suggest retaining a more comprehensive list of disclosures – including all or most of those disclosures currently listed as mandatory and non-mandatory in the draft amendments – that would be required if they are considered to be material to meeting the objectives in light of users’ needs. Entities would then need to exercise judgement to determine whether they should add supplementary information and explanations where this is needed to give users a full understanding of their particular situation.
34. In order for such an approach to work in practice, there would need to be a clear explanation of how and when users are likely to use each disclosure so that an assessment can be made about whether they are material to users and, hence, whether they need to be provided. As noted earlier, we believe it is important that suitably clear and granular explanations form part of the Standard itself and are not relegated to the Basis for Conclusions. If the Board were to adopt this approach, they may wish to consider producing additional educational material to help entities, auditors and regulators determine when individual disclosures should be made.
35. While not allowing as much flexibility as the Board’s proposed model, our preferred approach would still require preparers to apply judgement when deciding whether certain disclosures are required and when determining whether additional information or explanations are needed to meet the disclosure objectives.

36. We believe that our preferred approach would help address the disclosure problem and facilitate a shift from the ‘checklist approach’ that many currently take to disclosure requirements by:
- capturing additional relevant information needed to ensure that the disclosure objectives are met;
 - encouraging the omission of information if it is not material; and
 - improving communication with investors and other financial statement users by requiring preparers to provide further information and explanations where needed.
37. Moreover, such an approach would promote greater comparability than the Board’s proposed solution as specified disclosures would be required if they are considered material to users of the financial statements. This should result in companies with similar fact patterns disclosing more comparable information. This contrasts with the Board’s proposed approach that could see rather more widely varying disclosures by companies with similar fact patterns.

Question 4 – Describing items of information to promote the use of judgement

The Board proposes to use the following less prescriptive language when identifying items of information: ‘While not mandatory, the following information may enable an entity to meet the disclosure objective’. Paragraph BC19–BC26 of the Basis for Conclusions describe the Board’s reasons for this language and alternative options that the Board considered.

Do you agree that the proposed language is worded in a way that makes it clear that entities need to apply judgement to determine how to meet the specific disclosure objective? If not, what alternative language would you suggest and why?

38. As noted above, we are not supportive of the less prescriptive approach proposed by the Board and the removal, in most cases, of the requirement to disclose specific items. The wording mentioned in the question would not be relevant under the model we propose above.

Question 5 – Other comments on the proposed Guidance

Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the Board proposes to develop disclosure requirements in IFRS Standards in future applying the proposed Guidance. Paragraphs BC188–BC212 of the Basis for Conclusions explain the expected effects of any disclosure requirements developed using the proposed Guidance.

Do you have any other comments on these aspects? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

39. Comments on these aspects are included in our responses to questions 1-4 above where appropriate.
40. We believe that a lot of the detailed information, particularly in relation to what information users need and what they do with that information included in the Basis for Conclusions would sit better in the Guidance itself.

Proposed amendments to IFRS 13 Fair Value Measurement applying the proposed Guidance

Question 6 – Overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC62–BC73 of the Basis for Conclusions describe the Board’s reasons for proposing the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? If not, what alternative objective do you suggest and why?

41. See our response to question 1 for our views on the use of overall disclosure objectives. As noted above, we are concerned that the overall disclosure objective as drafted for IFRS 13 is so high-level and open-ended that it risks becoming meaningless.
42. In our view, users need information to assess whether the valuation techniques and inputs used by management to estimate fair value are reasonable, consistent with their own expectations and comparable to those used by other entities. Consequently, we believe the overall disclosure objective in relation to fair value measurement should aim to ensure that users of financial statements are able to understand:
 - the fair values included in the financial statements;
 - how those fair values were determined;
 - the valuation techniques and inputs used;
 - any measurement uncertainties; and
 - how likely it is that those fair value measurements will change significantly in the next twelve months.
43. The overall disclosure objective should be drafted in a way that clearly articulates these information needs and how they can be addressed through disclosure.
44. See our response to question 11 below for specific comments on how the proposals are drafted.

Question 7 – Specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board’s reasons for proposing the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss approaches that the Board considered but rejected.

- (a) ***Do you agree that the proposed specific disclosure objectives capture detailed user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? Why or why not? If not, what changes do you suggest?***
 - (b) ***Do you agree that the proposed specific disclosure objectives would result in the provision of information about material fair value measurements and the elimination of information about immaterial fair value measurements in financial statements? Why or why not?***
 - (c) ***Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.***
 - (d) ***Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.***
45. See our response to question 2 for our views on the use of specific disclosure objectives.
 46. One of the biggest challenges users currently face when looking at fair value disclosures is that they struggle to understand how the often very detailed information in the notes relates to individual items in the financial statements. We are not convinced that the proposed disclosure objectives overcome this problem as they are not supported by clear and granular

explanations of what information users want and in what circumstances that information is used.

47. In many cases the proposed specific disclosure objectives, required disclosures and non-mandatory disclosures mirror the existing requirements of IFRS 13. As such, it is unlikely that their application will lead to significant changes in practice as many preparers are likely to carry forward existing disclosures unchanged if they feel that doing so meets the letter if not the spirit of the proposed new requirements.
48. We agree with the broad thrust of the specific disclosure objectives in relation to:
 - assets and liabilities within each level of the fair value hierarchy;
 - measurement uncertainties associated with fair value measurements; and
 - reasons for changes in fair value measurements.
49. However, we believe that to make them really useful they need to be supported by clear and granular explanations of what information users want and in what circumstances that information is used. Currently the specific disclosure objectives and the paragraphs which support them tend to make rather vague references to helping users to ‘understand’, ‘assess’ and ‘evaluate’ information but do not provide enough specific context to ensure that preparers make disclosures that are particularly helpful.
50. See our response to question 11 below for specific comments on how the proposals are drafted.

Reasonably possible alternative fair value measurements

51. The proposals also include a specific disclosure objective relating to reasonably possible alternative fair value measurements for assets and liabilities measured at fair value on a recurring basis. These proposed new disclosures replace the sensitivity analysis required by the extant version of IFRS 13. They also apply to all levels of the fair value hierarchy rather than just those items in level three.
52. In our view, such disclosures would be both difficult to prepare and to understand. Moreover, requiring these disclosures for all items measured at fair value on a recurring basis rather than just for those in level three would impose a significant burden on preparers. We are therefore not convinced that the benefits of preparing this information for such a wide range of assets and liabilities will outweigh the associated costs. Consequently, we believe that retaining the existing sensitivity disclosures would be a better option.
53. Moreover, we note that the Board considered, but subsequently abandoned, the idea of requiring disclosures based around reasonably possible alternative assumptions while in the process of developing IFRS 13. These proposals were included in ED/2009/5 but replaced with sensitivity disclosures in ED/2010/17 after the Board concluded that the use of the term ‘reasonably possible alternative assumptions’ would potentially result in inconsistency in application because different entities have different interpretations of what is ‘reasonably possible’. The Basis for Conclusions does not explain why the Board has now reached a different conclusion on this matter.

Question 8 – Information to meet the specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board’s reasons for proposing the items of information to meet the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss information that the Board considered but decided not to include.

- (a) ***Do you agree that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?***
- (b) ***Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?***
54. See our response to question 3 for our views on required and non-mandatory disclosures. As noted above, our preferred approach would be for standards to include a list of disclosures that would be required if they are considered to be material, with entities required to add supplementary information and explanations where this is needed to give users a full understanding of their particular situation. In our view, disclosures about fair values should be included in each associated standard rather than in IFRS 13 – see paragraphs [62-65] below for more details.
55. It is not always clear why the Board has concluded that some disclosures are mandatory while others are non-mandatory. Materiality should, in our view, always be key in determining whether any specific disclosure is needed. To provide just one example, it seems odd that the disclosure outlined in paragraph 105 is required in all instances as in many cases producing something akin to the table outlined in Illustrative Example 15 will be out of all proportion to the materiality of the items to which it relates and will not necessarily produce information that many users of the financial statements find particularly useful.
56. See our response to question 11 below for specific comments on how the proposals are drafted.

Question 9 – Specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes
Paragraphs BC98–BC99 of the Basis for Conclusions describe the Board’s reasons for proposing the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.

- (a) ***Do you agree that the proposed specific disclosure objective captures detailed user information needs about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes? Why or why not? If not, what changes do you suggest?***
- (b) ***Do you agree that this proposed specific disclosure objective would result in the provision of useful information about assets and liabilities not measured at fair value but for which fair value is disclosed in the notes? Why or why not?***
- (c) ***Do you agree that the benefits of the specific disclosure objective would justify the costs of satisfying it? Why or why not? If you disagree, how should the objective be changed so that the benefits justify the costs?***
- (d) ***Do you have any other comments about the proposed specific disclosure objective?***

57. See our response to question 2 for our views on the use of specific disclosure objectives.
58. We agree with the broad thrust of the specific disclosure objective in relation to assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes. The issues discussed in paragraph [49] above are, however, equally applicable to this disclosure objective.
59. See our response to question 11 below for specific comments on how the proposals are drafted.

Question 10 – Information to meet the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

Paragraph BC100 of the Basis for Conclusions describes the Board’s reasons for proposing the items of information to meet the specific disclosure objective about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.

- (a) **Do you agree that entities should be required to disclose the proposed items of information in paragraph 120 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?**
- (b) **Do you agree with the proposed items of information that are not mandatory but may enable entities to meet the specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?**
60. See our response to question 3 for our views on required and non-mandatory disclosures. As noted above, our preferred approach would be for the standard to include a list of disclosures that would be required if they are considered to be material, with entities required to add supplementary information and explanations where this is needed to give users a full understanding of their particular situation.
61. See our response to question 11 below for specific comments on how the proposals are drafted.

Question 11 – Other comments on the proposed amendments to IFRS 13

Do you have any other comments on the proposed amendments to IFRS 13 in this Exposure Draft, including the analysis of the effects (paragraphs BC214–BC215 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

An alternative approach to disclosures about fair value measurement

62. Having reflected on the Board’s draft of overall and specific disclosure objectives, we consider that IFRS 13 should deal only with fair value measurement and should not include disclosures.
63. In our view, the key to the disclosure problem is to properly explain specific user needs. As these needs are primarily driven by the nature of the underlying item rather than by the fact that it is measured at fair value, we believe that the related fair value disclosure requirements should instead sit in the standard requiring the fair value measurement (or, in the case of financial instruments, IFRS 7).
64. Including overall and specific disclosure objectives relating to fair value measurement in each relevant standard would help avoid the boilerplate text that appears in the exposure draft, making it easier for preparers to understand what information users want and in what circumstances that information is used.
65. The only disclosure objective that we believe should potentially remain within IFRS 13 is that relating to the measurement uncertainties associated with fair value measurement as it cuts across all items measured at fair value. Having said that, it would perhaps be better to repeat this disclosure objective in each relevant standard so that all related disclosure objectives are found in one place.

Specific points on drafting

66. We also note the following specific points on drafting:

- Paragraph 100 refers to ‘classes’ of assets and liabilities measured at fair value but makes no specific reference to how this relates to the level of the fair value hierarchy in which the fair value measurement is classified. There is cross-reference to paragraphs B48-50 in the application guidance which is useful but it would be better if this guidance was included in the main body of the standard, as is the case with the extant version of IFRS 13 which includes similar material in current paragraph 94.
- Paragraph 101 is broadly consistent with the wording in current paragraph 94. Entities are currently struggling to apply their judgement when it comes to applying this paragraph so we question whether carrying it forwards largely unchanged is particularly helpful.
- Paragraph 102 could be clearer about when disclosures are required for non-recurring fair value measurements – for example, are these required only in the year that the fair value measurement is made, or in all other subsequent years while the assets and liabilities are still recognised?
- Paragraph 102 should refer to IFRS 3 *Business Combinations* as well as IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
- Paragraph 103 is a little confusing. In particular, it is not clear to us what is meant by ‘how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy’. Some guidance on what is meant by ‘characteristics’ would be helpful to minimise diversity in practice. The standard seems to indicate that ‘characteristics’ are those that relate to measurement uncertainty rather than any other attribute (such as sector).
- Paragraph 106(b) includes a very specific disclosure in relation to inseparable third-party credit enhancements. We believe that disclosures such as this are better dealt with by including an overarching requirement to consider whether any further information or explanations are needed to ensure that the disclosure objectives are met as discussed in paragraph [32] above.
- Paragraph 115(a) and (b) refer to ‘realised’ and ‘unrealised’ gains and losses. These terms are not defined in IFRS and their use may lead to confusion. This is certainly the case in the UK, where ‘realised’ is a technical term appearing in law and supported by a detailed definition provided by ICAEW. If such a distinction is genuinely important to users, it would be better to require information specifically relating to items that have been sold and those that remain unsold. We note that requiring disclosure of information on how active an entity is in buying and selling items measured at fair value and the gains or losses recognised on disposal may provide users with useful information on how reliable and accurate an entity’s fair value measurements are. However, we believe that this should be considered on a standard-by-standard basis, and that any associated disclosure requirement should be reflected in the relevant standard, with supporting explanations of how users will use the information.

Illustrative examples

67. We disagree with the removal of illustrative example 18, which – where relevant – provides a good indicator of the disclosures that might be appropriate.
68. The proposed wording update to illustrative example 19 is an improvement.

Proposed amendments to IAS 19 Employee Benefits applying the proposed Guidance

Question 12 – Overall disclosure objective for defined benefit plans

Paragraphs BC107–BC109 of the Basis for Conclusions describe the Board’s reasons for proposing the overall disclosure objective for defined benefit plans.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans? If not, what alternative objective do you suggest and why?

69. See our response to question 1 for our views on the use of overall disclosure objectives. As noted above, we are concerned that the overall disclosure objective for IAS 19 is so high-level and open-ended that it risks becoming meaningless.
70. The draft guidance on aggregation and disaggregation is helpful and should help ensure that relevant information is not obscured by either the inclusion of insignificant detail or the aggregation of items that have substantially different features or characteristics. We note, however, that paragraph BC109 requires entities to apply judgement to determine the level and basis of disaggregation that delivers the ‘most useful’ information in the entity’s circumstances. This seems an unreasonably high bar and one that few entities could aspire to reach. Perhaps it would be better to require that the level and basis of disaggregation delivers all the information that, in management’s view, is needed in light of the disclosure objectives.

Question 13 – Specific disclosure objectives for defined benefit plans

Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board’s reasons for proposing the specific disclosure objectives about defined benefit plans, and discuss approaches that the Board considered but rejected.

- (a) ***Do you agree that the proposed specific disclosure objectives capture detailed user information needs about defined benefit plans? Why or why not? If not, what changes do you suggest?***
- (b) ***Do you agree that the proposed specific disclosure objectives would result in the provision of relevant information and the elimination of irrelevant information about defined benefit plans in financial statements? Why or why not?***
- (c) ***Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.***
- (d) ***Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.***

71. See our response to question 2 for our views on the use of specific disclosure objectives.
72. We found the specific disclosure objectives included in the draft amendments to IAS 19 more helpful than those in the draft amendments to IFRS 13. Overall, we feel that the proposed specific disclosure objectives relating to defined benefit plans would enable preparers to meet user information needs. Moreover, we feel that – if applied as intended – these objectives should help preparers decide what information they should and shouldn’t include in their financial statements ensuring that relevant information is provided and irrelevant information is eliminated.
73. Improvements could, however, still be made as – in common with the draft amendments to IFRS 13 – some of the text feels somewhat boilerplate. Moreover, readers currently need to refer to explanations provided in the draft Basis for Conclusions to fully understand the Board’s thinking. We recommend that the Board includes such explanations within the Standard itself, as they are fundamental to assessing materiality and whether extra disclosures are needed.
74. See our response to question 18 below for specific comments on how the proposals are drafted.

Expected future cash flows

75. The proposals require entities with defined benefit plans to disclose information that enables users to understand the expected effects of the defined benefit obligations recognised at the end of the reporting period on the entity's future cash flows and the nature of those effects. Moreover, for plans that are closed to new members, the proposals will require entities to disclose information to enable users of the financial statements to understand the period over which payments will continue to be made.
76. We note that almost all users of financial statements who participated in the Board's outreach programme said that information about the expected effects of defined benefit plans on an entity's future cash flows is useful to their analyses, with many confirming this to be the most relevant information they could receive about defined benefit plans. We also note that there are many schemes in the UK that are closed to new members and acknowledge that further disclosures in this area may be helpful. We do, nonetheless, have some concerns about the provision of this information.
77. We note that financial statements do not typically provide forward-looking information. Detailed information about the timing of future cash flows is currently only required for those liabilities for which there are contractual cash flows. For non-financial liabilities, where a cash flow forecast is required to produce the present value, there is no need to disclose details about each expected payment. Providing information on expected – but uncommitted – future cash flows in this instance would therefore be somewhat incongruous and could potentially mislead users. We do, however, support requiring disclosure where cash payments are committed due to, say, regulatory requirements.
78. Rather than focussing on the period over which payments will continue to be made for plans that are closed to new members, we suggest that the Board focuses on the scheme's funding position and the extent of any residual investment risk. For example, there is little or no risk where an entity's obligations are matched by government bonds. On the other hand, there would be greater concerns if those obligations were matched by equities. We believe this a better metric that would provide users of financial statements with more useful information.

Question 14 – Information to meet the specific disclosure objectives for defined benefit plans

Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans, and discuss information that the Board considered but decided not to include.

- (a) **Do you agree that entities should be required to disclose the proposed items of information in paragraphs 147F, 147M and 147V of the [Draft] amendments to IAS 19? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objectives?**
- (b) **Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?**
79. See our response to question 3 for our views on required and non-mandatory disclosures. As noted above, our preferred approach would be for the standard to include a list of disclosures that would be required if they are considered to be material, with entities required to add supplementary information and explanations where this is needed to give users a full understanding of their particular situation.

80. See our response to question 18 below for specific comments on how the proposals are drafted.

Question 15 – Overall disclosure objective for defined contribution plans

Paragraphs BC156–BC158 of the Basis for Conclusions describe the Board’s reasons for proposing the overall disclosure objective for defined contribution plans.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined contribution plans? If not, what alternative objective do you suggest and why?

81. We are surprised that the Board felt the need to include an overall disclosure objective for defined contribution plans. While users need information on the effects total employment costs have on an entity’s statements of financial performance and cash flows, we are not convinced that specific information is needed for defined contribution plans as there is no uncertainty or risk associated with the amounts paid or payable.

Question 16 – Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control

Paragraphs BC159–BC166 of the Basis for Conclusions describe the Board’s reasons for proposing which disclosure objectives should apply for multi-employer plans and defined benefit plans that share risks between entities under common control.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

82. The disclosure objective for multi-employer plans is rather confusing as it attempts to combine the overall disclosure objective for defined contribution plans with one of the specific disclosure objectives for defined benefit plans. We suggest that the Board creates separate disclosure objectives for such plans to avoid unnecessary complexity within the structure of the standard.
83. While we do not support the arbitrary split between mandatory and non-mandatory disclosures, we were surprised that the disclosures set out in paragraphs 147P, 148B(a) and 148B(b) were not considered to be required as users of the financial statements will surely be interested in the nature of the plan and any surplus or deficit for any such schemes that are considered material.

Question 17 – Disclosures for other types of employee benefit plans

Paragraphs BC167–BC170 of the Basis for Conclusions describe the Board’s reasons for proposing the overall disclosure objectives for other types of employee benefit plans.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

84. We agree that many other types of employee benefits – such as short-term employee benefits and termination benefits – are generally easy to understand and unlikely to affect the analyses undertaken by financial statement users. The proposed overall disclosure objective is somewhat boilerplate but should nonetheless ensure sufficient information is disclosed to meet user needs. We therefore agree that it is unnecessary to develop specific disclosure objectives for these benefits.
85. We are, however, surprised that the Board felt that a similar approach was suitable for other long-term employee benefits. Accounting for such benefits will often involve financial

modelling and the input of financial and actuarial assumptions. Specific disclosure objectives relating to the measurement uncertainties that are inherent in such benefits would be helpful.

86. Moreover, as the types of long-term benefits provided vary significantly from entity to entity, additional disclosures are likely to be needed to enable financial statement users to understand how the benefits provided by one entity compare to those provided by another.

Question 18 – Other comments on the proposed amendments to IAS 19

Do you have any other comments on the proposed amendments to IAS 19 in this Exposure Draft, including the analysis of the effects (paragraph BC216 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

87. We also note the following specific points on drafting:
- Paragraph 147C(b) lists features that an entity may consider when deciding whether disclosures should be disaggregated. The characteristics of the plan are likely to be the most determinative feature and therefore should come first on this list.
 - Paragraph 147S(c) should perhaps refer to ‘how’ rather than ‘the reasons why’ actuarial assumptions changed significantly during the reporting period.
88. We also note that IAS 19 is the only IFRS Standard where disclosures are interspersed between accounting requirements. Grouping all disclosures together in one place would avoid duplication.