2 November 2021

Mr Andreas Barckow
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Submitted to: www.ifrs.org

Dear Andreas

ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*

Thank you for the opportunity to comment on ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* (the ED). The ED has been exposed for comment in New Zealand. Given the widespread implications of the proposals we have gone to some lengths to make sure that constituents are aware of the proposals. This included hosting a webinar with preparer, auditor and regulator input (attended by over 200 people) and reaching out to a number of consultative groups and interested parties. The NZASB has received some feedback directly from New Zealand constituents but some may comment to you.

We appreciate the IASB's ongoing efforts to bring about improvements in financial reporting by addressing aspects of the disclosure problem. When we commented on the 2017 Discussion Paper *Disclosure Initiative—Principles of Disclosure*, we agreed with the description of the disclosure problem and its causes. At that time we expressed the view that behavioural issues in applying judgement play a larger part in contributing to the disclosure problem than a lack of guidance or the actual requirements in IFRS® Standards. Despite this, we indicated support for the idea of developing overall and specific disclosure objectives in individual standards.

Recent efforts to address the disclosure problem include the development of IFRS Practice Statement 2 *Making Materiality Judgements,* publication of the *Better Communication Case Studies* and amendments to various standards. We believe that all of these projects have contributed to addressing aspects of the disclosure problem.

The current proposals reflect the IASB's view that there continues to be a disclosure problem and that further action is required to change behaviour.

Although we support the objective of the current project and aspects of the proposals, our overall view is that the current proposals will not bring about the desired behavioural changes.

Aspects of the proposals that we support include early engagement with users, better justification of disclosure requirements and explanations of how information will be used. We think that these initiatives will support informed debate during the development of disclosure requirements, including considering the risk of disclosure overload in standards. We think that more widespread use of overall and specific disclosure objectives would be useful both in developing and applying disclosure requirements. They could contribute to the debate when developing disclosure requirements, assist preparers in making materiality judgements and play a useful role in discussions between preparers, auditors and regulators.

However, we do not support the proposals to shift the current relationship between disclosure objectives and items of information to be disclosed, nor do we support the proposed language to be used when identifying items of information.

Although we have heard that aspects of the disclosure problem (both disclosing too little and disclosing too much) can be observed in New Zealand, we have not heard that there is a widespread disclosure problem in New Zealand. The NZASB received feedback highlighting that a number of entities work hard to present clear and understandable information to investors, and are able to do so while applying current standards. We therefore remain of the view that behavioural issues in applying judgement play a larger part in contributing to the disclosure problem than a lack of guidance or the actual requirements in IFRS Standards. Entities that currently take a considered and thoughtful approach to disclosures and document judgements about disclosure would most likely take the same approach to any new requirements. Those that treat disclosure as a compliance exercise (whether disclosing too much or too little) would most likely continue with that approach.

Given that we do not support key aspects of the proposals, we have reflected on what else the IASB could do to bring about the desired behavioural changes.

We think that it is useful to have both disclosure objectives and specific disclosure requirements in standards, along with a materiality overlay. When all these components are in place, a disclosure objective can usefully provide an explanation for why certain items of information are required and what the standard setter was trying to achieve when establishing those requirements. In our view a disclosure objective and the associated requirements should reflect the decisions made by a standard setter at the conclusion of appropriate outreach and due process. A disclosure objective should not put the onus on preparers to identify user needs.

We would support more widespread use of disclosure objectives going forward (which would be in keeping with the approach to drafting in more recent IFRS Standards). We would also support a detailed review of the disclosure requirements across standards, informed by feedback from users and preparers, but without adopting other aspects of the proposed new approach to drafting disclosure requirements.

In reflecting on the way forward we would like to stress the usefulness and impact of earlier disclosure initiative projects. We have received feedback that the 2014 amendments to IAS 1 *Presentation of Financial Statements* encouraged entities to review their note disclosures and had a positive impact. *Disclosure Initiative* (Amendments to IAS 1) issued in December 2014 clarified that (i) materiality applies to the whole of the financial statements and that the presence of immaterial information can reduce the usefulness of financial disclosures and (ii) an entity should use professional judgement to determine where and in what order information is presented in the notes. Following these amendments, many entities focused on decluttering and streamlining their financial statements. These efforts were encouraged by publications put out by professional bodies and supported by public discussions between preparers, auditors and regulators. This work continues to have a positive impact. Given the impact of this earlier work, we suggest that IASB look at ways to promulgate and reinforce these messages.

Ongoing education (such as webinars, webcasts and articles), about the requirements in standards and the practical application of those requirements will maintain interest in effective disclosure. Informal interviews with entities about how they have applied disclosure requirements or reviewed disclosures could also maintain interest in this topic. We have one final point that we would like to make in this letter but which is not reflected in our more detailed comments. In New Zealand we have an Accounting Standards Framework which establishes two tiers of requirements for for-profit entities with legislative requirements to report in accordance with GAAP. Tier 1 (NZ IFRS) incorporates all the requirements in IFRS Standards, including all disclosure requirements. Tier 2 (NZ IFRS RDR) has reduced disclosure requirements, which in the most part are identified by means of asterisks beside the Tier 1 disclosure requirements.

In commenting on these proposals we have considered how they would be applied by Tier 1 entities. We are also aware of, and monitoring, the IASB's work on subsidiaries without public accountability, which could offer an alternative way of establishing disclosure requirements for Tier 2 entities. We intend to look at other possible ways of establishing Tier 2 disclosure requirements once that project has been completed. We are therefore interested in both of the IASB's active disclosure projects but note that the two sets of proposals reflect quite different approaches – the ED *Subsidiaries without Public Accountability: Disclosures* does not use disclosure objectives. We are interested in how these two sets of requirements will interact and whether a consistent approach to both sets of disclosure requirements is a possibility.

Our responses to the questions are set out in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact staff (Joanne.Scott@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery

Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

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?

Question 1(a)

1. Our responses to Questions 1–5 should be read in the light of our comments in our cover letter in which we support aspects of the proposals, but express the view that the current proposals will not bring about the desired behavioural changes and disagree with the proposals to shift the current relationship between disclosure objectives and items of information to be disclosed. Our responses to Questions 1–5 should also be read together.

2. We agree that overall disclosure objectives, along with the process of developing objectives, can be useful.[1] Overall disclosure objectives can encourage preparers to think about disclosures in their entirety and to consider the need to disclose additional information. They can also encourage preparers to think about whether information is presented in a way which best supports user needs. However, overall disclosure objectives have their limitations. They state the main purpose of the disclosures in a standard but, by their nature, they do not help preparers in deciding which individual items of information to disclose. As explained below, we do not agree with the proposal to use the word "shall" in overall disclosure objectives and consider that the current proposals would extend the role of overall disclosure objectives beyond what is appropriate.

3. Paragraph DG6 explains that the intention of the proposed overall disclosure objectives is to require that entities consider whether they have to provide additional information that is not directly required by the specific disclosure objectives in a standard. Paragraph 31 of IAS 1 *Presentation of Financial Statements* already requires that entities consider whether additional disclosures are required. The overall disclosure objectives would therefore seem to be bringing an existing requirement in IAS 1 into individual standards. As outlined in our response to Question 4, we consider that the requirements in IAS 1 are already quite clear but would support moves to highlight those requirements in all standards.

4. We read the proposals as going further than stressing the need to consider additional disclosure and creating an absolute requirement for an entity to consider whether it has satisfied user needs. This could place an unreasonably heavy burden on preparers. It could

[1] For example, the paragraph 1 of IAS 24 *Related Parties Disclosures* clearly outlines the purpose of the disclosures, as does the first objective paragraph of IAS 7 *Statement of Cash Flows.*

also lead to situations where preparers, auditors and regulators hold differing views about the information required to satisfy overall objectives. The IASB serves an important role by seeking feedback on the information that users want and then deciding which of those information needs should be satisfied by way of financial statement disclosures in general purpose financial reports (GPFR). There are many different types of users, some of whom have differing information needs and possibly some with extensive wish lists.[2] We understand that the IASB intends to consider user needs and form a view about what is appropriate in GPFR. Under the proposed approach the IASB would also discuss these user needs in the standards. As worded, we think the proposed overall disclosure objectives would create a requirement for an entity to meet all user needs, rather than those user needs that are collectively regarded as appropriate and necessary in GPFR.

5. User needs can change over time. Times of crisis (such as the global financial crisis in 2008 and the current pandemic) can highlight deficiencies in existing information or lead to calls for different information. Users may not know what information they would find useful in such situations until after the event has happened. Periodic review of standards helps to ensure that disclosure requirements remain appropriate and meet collective user needs. As worded, we think that the proposed overall disclosure objectives could open preparers up to demands for information that has not been previously considered. Entities may choose to provide information that is not required by standards, but this is not the same as creating an open-ended requirement. Given the potential changes in user needs over time, we disagree with prescriptive language in overall disclosure objectives.

6. We think that some existing disclosure objectives, such as that in IFRS 7 *Financial Instruments: Disclosures*, play a useful role without the use of such prescriptive language.

7. To conclude our response to Question 1(a), we support more widespread use of overall disclosure objectives in standards, but we do not support the prescriptive language proposed in those objectives.

Question 1(b)

8. We have partially addressed Question 1(b) in our response to 1(a). Although we support more widespread use of overall disclosure objectives we do not think that they will help entities, auditors and regulators to determine whether information provided in the notes meets overall user information needs. Our main concern is that overall disclosure objectives are so broad that different groups could have differing views on the adequacy of information provided. There is a risk that the cost of getting agreement between parties with different views could outweigh the benefits.

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2 One of the objectives of this project is to help stakeholders improve the usefulness of disclosures in the notes for the primary users of financial statements (paragraph BC11). As explained in the Conceptual Framework (paragraph 1.5) primary users include existing and potential investors, lenders and other creditors. However, the discussion of how the IASB proposes to seek feedback from users appears to focus on investors (paragraph BC36). This description of how the IASB will seek to obtain feedback may have been indicative, but, going forward, we think that there should be explicit consideration of the needs of all primary users.

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?

Question 2(a)

9. Specific disclosure objectives are already used in some IFRS Standards.[3] We support the proposal for more widespread use of specific disclosure objectives and the proposals to explain how users would use certain information. However, as discussed in Question 3, we disagree with the combined package of proposals which would require assessments of compliance against specific disclosure objectives.

10. Although we agree that specific disclosure objectives serve a useful role we do not think that more widespread use of specific disclosure objectives will bring about the desired changes in behaviour. There are a number of reasons why entities might continue to use items of information in standards as a checklist. Our response to Question 3 discusses this in more detail.

11. The IASB has already undertaken a number of projects to highlight the disclosure problem and the need for appropriate application of materiality when preparing financial statement disclosures. These projects have raised awareness and encouraged thoughtful application of materiality and clear presentation of information. We would like to stress that this earlier work has been useful and has had a positive effect in New Zealand. A number of New Zealand entities have devoted considerable time and effort to decluttering and streamlining their financial statements. There was a major focus on this around 2016–17, but for many entities decluttering and streamlining continues to be an ongoing process. Given the extent to which this approach has been embraced, we have received feedback querying the prevalence of the 'disclosure problem' in the financial statements of entities applying NZ IFRS.

[3] For example IFRS 12 paragraph 24 explains the objective of disclosing information about unconsolidated structured entities.

12. However, we acknowledge that the IASB has received feedback saying that more change is needed. Standard setting might be what is required to bring about improvements and we think that the proposals, particularly the use of explanations about how users would use certain information could encourage a more thoughtful approach to disclosure by some entities. However, we cannot give an unreserved 'yes' response to Question 2(a) because of the other factors that drive behaviour. For example, smaller entities may have fewer resources to devote to communicating with investors and other users and reviewing and reshaping disclosures and perceive less benefit from doing so than larger entities.

13. We are not proposing an alternative approach. We think that it is useful to have both disclosure objectives and specific disclosure requirements in standards, along with a materiality overlay. When all these components are in place a disclosure objective can usefully provide an explanation for why certain items of information are required and what the standard setter was trying to achieve when establishing those requirements. In reflecting on the way forward we think that ongoing education and awareness, along with celebrating good practice, will continue to be important in improving disclosures.

Question 2(b)

14. We consider that specific disclosure objectives, and the explanation of how information is intended to help users, could help inform discussions between auditors, regulators and reporting entities. We think that specific disclosure objectives would be most useful when there is a view that additional information should be provided. We think that specific disclosure objectives would be less helpful in deciding whether information is irrelevant or could be communicated more effectively. Please see also our response to Question 3.

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.

Question 3(a)

15. Taken as a whole, we do not agree with the proposed approach. Our main areas of disagreement are with the proposals to use prescriptive language in overall disclosure objectives and use less prescriptive language when referring to items of information. As indicated in our responses to Questions 1 and 2 we support the use of overall and specific disclosure objectives, but not in the way proposed in the ED.

16. Our reasons for disagreeing with the proposed approach are outlined in our responses to Questions 3(b) to (e). In brief, we do not think that the proposals will lead to the desired changes in behaviour, and we have concerns about enforceability and cost.

Questions 3(b) and 3(c)

17. Overall we do not consider that the proposals will have a significant effect on the checklist approach because they would not change the factors that drive a checklist approach. Adding

more disclosure objectives to standards could encourage a more thoughtful approach to disclosure by some, but IAS 1 paragraph 31 is already quite clear that a specific disclosure is not required if the resulting information is not material. Bringing that message into individual standards may lead to more consideration of that requirement, but we do not think it will 'solve the problem'. We are aware of the argument that an entity would have no incentive to provide immaterial information as it would not help an entity satisfy disclosure objectives, but we think that entities will still face real or perceived pressures to provide most of the items of information mentioned in a standard.

18. Factors that could lead to entities continuing to adopt a checklist approach to disclosures (and possibly disclosing too much irrelevant information) include the following.

- The need to document reasons for not providing information.
- The need to get agreement about items to be excluded at the beginning of the year.
- The unwillingness to remove items that might be required again in a subsequent year (possibly a concern about costs of changing processes and the risk of not identifying it early enough as a required item in a subsequent period).
- A 'better be safe than sorry' attitude combined with a perception of limited benefits from reducing disclosure.
- The actual or perceived costs of engaging more closely with users and of getting a consensus about items of information.

19. The description of the disclosure problem also includes entities that do not disclose enough relevant information. We have heard that this aspect of the disclosure problem can also be observed in New Zealand. Such entities may cite concerns about commercial sensitivity and the cost of preparing and auditing information. The more widespread use of specific disclosure objectives could be helpful if auditors or regulators consider that important information has been omitted, but we do not think that the proposed approach will encourage entities to disclose more information.

20. Our view is that amending IFRS Standards to place more emphasis on the need for effective materiality judgements could help with the checklist approach and disclosure problem but that it would not address the problem. Any changes to standards need to be workable for all parties and, as indicated below, we think the proposals would create difficult tensions.

Question 3(d)

21. The proposals would place more emphasis on judgement. This, in itself, is likely to create enforcement challenges. In the absence of specific disclosure requirements, it is likely to be difficult for auditors or regulators to conclude that the judgement made by the preparer is not reasonable and that specific information is needed to fulfil a certain objective.

22. We are aware that the IASB has thought about this in drafting the proposals and hopes that the identification of user needs and explanation of how users will use information will give entities and others the tools they need to say why they think certain information is required or not required. We agree that identification of users' needs and explanation about how

information will be used could be useful for entities and others making such judgements, but we do not think that including such additional information in standards will necessarily lead to entities and others making the same judgements.

23. We accept that entities already have to make materiality judgements and that the proposals could be seen as a way of repackaging existing requirements. However, we think that the proposed shift in approach could result in more judgement, more documentation of judgement, and more discussions with auditors and regulators. While some such discussions could be productive, we think there is a risk that they could consume a lot of time for limited changes in behaviour.

Question 3(e)

24. The costs of the proposed approach would vary across entities. For those entities that are already critically applying the materiality requirements in IFRS Standards, there might be limited additional costs. However, any change in standards generates additional costs as entities review what, if anything, in their current processes and systems need to change. For others the costs could be considerable.

25. We have flagged some possible additional costs that entities might incur. An increased emphasis on judgement would require more justification and documentation of judgements. This is likely to require more time and attention from senior staff, senior management and possibly governing bodies. An entity might also need to spend more time with auditors at the beginning of the period confirming whether or not certain items of information will be collected.

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?

26. Our response to this question should be read in the light of our overall disagreement with the proposed approach. The proposed wording makes it clear that entities would need to apply judgement to determine how to meet the specific disclosure objective, but we do not think that the proposed wording would be any more effective in changing behaviour than the other wording options considered by the Board (as outlined in paragraph BC21). Nor do we think that the proposed wording would lead to a significant shift in behaviour compared to that observed under the current requirements.

27. In our view, IAS 1 paragraph 31 is quite clear that an entity need not provide a specific disclosure required by an IFRS Standard if the information resulting from that disclosure is not material. In our submission on the 2017 Discussion Paper we recommended putting greater

emphasis on materiality in a manner that reinforces materiality as a pervasive concept, and suggested that this could be done by including a general paragraph in each standard reminding entities to apply materiality or by way of appropriate cross-referencing to the relevant parts of IAS 1 (or its replacement). We remain of the view that this could be helpful.[4]

28. The language proposed by the ED reflects the IASB's desire to shift the focus away from applying disclosure requirements like a checklist. We acknowledge that application of checklists can contribute to the disclosure of irrelevant information by some entities. However, checklists also have their advantages. The pros and cons of checklists depends on the behaviour of preparers, auditors and regulators.

29. Checklists can be an efficient and effective way for an entity to document its disclosure judgements. Entities are more likely to be able to identify additional items of information that need to be disclosed if the items identified in a standard are reasonably comprehensive. If fewer items of information are identified in a standard and more additional items are required, entities could incur additional costs in identifying items to disclose.

30. Checklists can also limit the omission of important information. If an entity has a minimalistic approach to disclosing information it is less likely to disclose information if it is not specifically required by a standard.

31. We are also concerned that the proposed language around items of information could reduce the comparability of financial statements. We are aware of the arguments that uniform information and comparable information are not the same thing, and that what matters is meaningful comparability. Although we acknowledge these points we think that the proposals could adversely affect comparability.

32. We also have a comment about considering the implications of these proposals alongside the proposals in earlier EDs. ED/2019/7 *General Presentation and Disclosure* indicated that IAS 1 paragraph 31 would be carried forward into a new presentation and disclosure standard. That ED also proposed to move the definition of material and the associated guidance into IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In our comments on ED/2019/7 we suggested that there are good reasons why a general presentation and disclosure standard should include specific guidance on materiality because of the difficulty of applying materiality judgements to disclosures. We also commented on the proposals about disaggregation. We have mentioned the earlier ED here because it is difficult to comment on the proposals without seeing all the proposals about materiality together. This might indicate a need for further consultation before finalising the proposals in either of these EDs.

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[4] We acknowledge the description of the Board's intentions in paragraph DG4 (shown below) and agree with the comment that multiple or duplicate references to materiality can introduce confusion. However, we think that explicit reference to the existing materiality requirements in every standard might be clearer than introducing new requirements that touch on materiality, without explaining the link between the new requirements and the existing requirements.

> DG4 The Board will, to the extent possible, avoid making generic or overarching references to materiality in the disclosure sections of individual IFRS Standards. This is to reinforce materiality as an overarching concept that applies across all Standards, including all disclosure requirements. Multiple or duplicate references to materiality can introduce confusion about how the concept applies to a Standard in which it is not mentioned.

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).

33. Although we do not support the proposals as a whole, we do support the proposals for early engagement with stakeholders to understand their needs and the likely practical effects of disclosure proposals. The Due Process Handbook would be an appropriate place to document any new processes.

34. Before making decisions on this project we would urge the IASB to consider the way that users access and use information both now and in the future. As you have acknowledged in recent discussions, the way in which corporate information is consumed has changed in recent years. People no longer read a set of financial statements from cover to cover. Some users may be less concerned about the overall amount and layout of the notes than in being able to find the items of information that they want. This comment applies to people accessing financial data from more traditional PDF and HTML formats as well as those using the IFRS Taxonomy.

35. Consistent with our comments on the recent agenda consultation, we encourage the IASB to consider financial reporting and future digital reporting developments in a holistic and strategic way across all its activities to ensure that standards remain relevant in the future. We would appreciate some thought leadership from the IASB as to how the IASB's work and products will change in response to the significant technological changes occurring now and in the future.

36. Elsewhere in this letter we have commented on the likelihood, under the proposed new approach, of preparers and auditors forming different views (or struggling to form a view) as to whether the information disclosed by an entity satisfies the disclosure objectives and meets the needs of stakeholders. If the IASB proceeds with these proposals, we recommend that the IASB works with the International Auditing and Assurance Standards Board to develop guidance for auditors regarding the audit of the selection of disclosures.

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?

37. Before responding to the questions on IFRS 13 we have some general comments, including some comments on the selection of IFRS 13 as one of the standards on which to illustrate the application of the proposed approach.

38. At the conclusion of the PIR on IFRS 13, the IASB concluded that IFRS 13 is working as intended and expressed the following views.

- The information required by IFRS 13 is useful to users of financial statements.
- Some areas of IFRS 13 present implementation challenges, largely in areas requiring judgement. However, evidence suggests that practice is developing to resolve these challenges.
- No unexpected costs have arisen from the application of IFRS 13.

39. We acknowledge that the IASB has received feedback that IFRS 13 can lead to the disclosure of too much detailed information (particularly of Level 3 items) and that more disclosure of some Level 2 items might be appropriate. However, we are not convinced that there is sufficient concern about IFRS 13 to warrant change at this time or that the proposals will result in requirements that are better understood or more consistently applied than the existing requirements. Despite this, we have given feedback on some aspects of the proposals, as applied to IFRS 13. Our comments on Questions 6–10 are not comprehensive.

40. We found it necessary to read the Basis for Conclusions (paragraphs BC62–BC73, and in particular, paragraph BC63) to understand what the IASB is aiming to achieve with the overall disclosure objective in paragraph 100. We acknowledge that paragraphs 100–101 should be read together with the more detailed guidance in paragraphs 103–121 and that disclosure objectives tend to be expressed at a fairly high level. However, taking the overall disclosure objective on its own, we are not convinced that it is any more useful than the current disclosure objective in IFRS 13 paragraph 91 or that preparers will grasp what it is aiming to achieve.

41. Paragraph 100 focuses on disclosure of information to enable users to evaluate an entity's "exposure to uncertainties". Because paragraph 100 does not elaborate on what is meant by this phrase, we looked to paragraph 107 (entitled 'Measurement uncertainties associated with fair value measurement'). Paragraph 107 is very similar to the existing requirement in IFRS 13, paragraph 91(a) – the main difference is that rather than just requiring disclosure of valuation

techniques and inputs it requires information to enable users to understand those techniques and inputs. Paragraph 108 then says that the information about techniques and inputs is intended to help users assess the sources of measurement uncertainty. However, we do not think that the items of information listed in paragraphs 110 are sufficient to help a reader understand how the suggested items of information are intended to help a user evaluate an entity's "exposure to uncertainties".

42. These comments could be regarded as being inappropriately focused on the actual wording used in the ED. We have made these comments to try and convey our concerns that the proposals are not sufficiently clear for readers to grasp what is required and for everyone to form the same view about what is required. We think the intention of the overall objective should be reasonably clear from the requirements in the Standard, without having to revert to the Basis for Conclusions.

43. We have commented on Questions 7 and 8 together and Questions 9 and 10 together. Our comments on Question 7 also discuss paragraph 100(c).

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.
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?

44. This is a combined response to Questions 7 and 8. As mentioned earlier, these comments are on selected aspects of the proposals. They are not comprehensive.

While not mandatory

45. Looking at the IFRS 13 proposals prompted us to think about how the words 'While not mandatory', which are used throughout the ED, will be applied in practice. Although entities already have to make materiality judgements, we consider that the proposals will require more and possibly different types of judgements than at present. For example, under the proposals an entity would have to apply judgement to determine which items of information are relevant in its circumstances. The proposed use of the phrase 'while not mandatory' as the lead in statement to items of information that might help satisfy disclosure objectives changes the current presumption that certain information should be disclosed unless an entity decides that it is not material, to a more open-ended question. We think that the judgements for the open-ended question will be more difficult and will require more guidance.

46. We have noted one instance where there could be confusion between a specific disclosure objective and the non-mandatory items of information. Paragraph 107 (a specific disclosure objective about measurement uncertainties) states that an entity shall disclose information that enables users to understand the significant techniques and inputs used in determining fair value measurements. However, paragraph 110(a) then identifies a "description of significant valuation techniques" as information that may enable an entity to meet the disclosure objective, but which is not mandatory. We think this could lead to confusion about whether information about valuation techniques is mandatory or not.

Increased emphasis on judgement

47. We would like to reiterate some of our comments on Questions 1–4. An increased reliance on judgement could lead to differing views about what information should be provided. Although the proposals have been drafted with the intention of helping entities cut back on unnecessary disclosures and making them consider the possible need for additional information, we are concerned that the increased emphasis on judgement and the change in requirements will be costly, particularly for entities with a high volume of financial instruments. For example, the ED is proposing a shift from the current sensitivity analysis requirements to reasonably possible alternative fair value measurements. We are concerned about potential costs, given that this proposal would apply to all levels of the fair value hierarchy and the potential for differing views about what information should be provided.

48. We've heard that the proposals will lead to increased costs and that the costs will outweigh the benefits. Although the IASB has concerns about the inappropriate use of disclosure requirements as checklists, some constituents have highlighted that checklists can be a useful tool when documenting disclosure judgements.

Assets and liabilities within each level of the fair value hierarchy (paragraph 104)

49. We do not think that the specific disclosure objective in paragraph 103 is sufficiently clear, or possibly it is the link between paragraphs 103 and 104 (shown below) that needs to be reconsidered.

> **ED, paragraphs 103 and 104**
>
> **103 For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand:**
>
> **(a) the amount, nature and other characteristics of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition; and**
>
> **(b) how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.**
>
> 104 The information required by paragraph 103 is intended to help users of financial statements assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position at the end of the reporting period.

50. Taken on its own, paragraph 103 seems fairly straightforward. However, we do not consider that the information required by paragraph 103 would necessarily lead to an understanding of the relative subjectivity in the entity's categorisation of items. Nor do we understand why the relative subjectivity in the entity's categorisation of items is being stressed in paragraph 104. The extent to which an item has unobservable inputs will affect how an entity categorises that item, but we do not think that such categorisation would necessarily involve subjectivity or why such subjectivity warrants disclosure over and above the characteristics used to categorise the item.

Alternative fair value measurements (paragraphs 100(c) and 111–113)

51. The ED introduces new proposals for disclosure of alternative fair value measurements. We think that there will be differing views about what is required by the proposals and differing views about the most appropriate way for an individual entity to meet those requirements. We are not convinced that the proposals will lead to information that is any more understandable or useful than sensitivity analyses.

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?
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?

52. This is a combined response to Questions 9 and 10. As mentioned earlier, these comments are on selected aspects of the proposals. They are not comprehensive.

53. We do not agree with the proposals in relation to items that are not measured at fair value. Between them, IFRS 7 and IFRS 13 already require some fair value information about items not measured at fair value, but the current requirements are at a fairly high level. We read the proposals as requiring more than is currently required and do not support such a change. We have concerns about the availability, cost and reliability of the information required by the proposals.

54. We also have a comment about the relationship between paragraphs 118 and 121 (shown below). As written it is not clear whether information about the characteristics of assets/liabilities is mandatory (as implied by paragraph 118) or non-mandatory (as implied by paragraph 121). We are not sure how it would be possible to meet the disclosure objective in

paragraph 118 without also providing the disclosure that is labelled as non-mandatory in paragraph 121.

Assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

118 An entity shall disclose information that enables users of financial statements to understand:

(a) the amount, nature and other characteristics of each class of assets and liabilities (see paragraphs B48–B50) not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes; and

(b) how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.

119 The information required by paragraph 118 is intended to help users of financial statements assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position and financial performance.

120 In meeting the disclosure objective in paragraph 118, an entity shall disclose the fair value measurement for each class of assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).

121 While not mandatory, a description of the nature, risks and other characteristics of the classes of assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed may enable an entity to meet the disclosure objective in paragraph 118. This information can be provided by cross-reference to where that information is disclosed elsewhere in the financial statements.

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?

55. We have not commented on Question 11. Nor have we commented on Questions 12–18.