23 December 2021

Dr Andreas Barckow
Chair
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

Submission via website: www.ifrs.org

Dear Dr Barckow

Exposure Draft ED/2021/3: Disclosure Requirements in IFRS Standards – A Pilot Approach

As the representatives of over 300,000 professional accountants in Australia, New Zealand and around the world Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to comment on the above Exposure Draft ("the ED"). We support the IASB's ongoing efforts to make financial statement disclosures more useful and improve communication effectiveness.

As a result of the IASB's previous projects on this topic in recent years, many entities have devoted considerable time and effort and made substantial progress in improving disclosures in, and communication effectiveness of, their financial statements. Continued education and awareness, along with showcasing real examples of best practice, will continue to play an important part in improving disclosures and overall communication effectiveness.

General comments

We support the objective of the project to enhance how the IASB develops disclosure requirements. However, we do have concerns with major aspects of the proposed approach to drafting disclosure requirements and at this stage believe the retention of specific disclosure requirements is preferable.

We commend the IASB for conducting field testing of the proposals which in our view is critical to assess any operational challenges – not only for preparers but also for auditors and regulators. We look forward to seeing the results. The IASB should ensure that entities of a diverse nature and size are represented in the field testing to provide necessary insights into the practical application of the proposals.

More generally, we believe XBRL-based digital reporting is a primary way of addressing the complexity of disclosures. Digital reporting is a first step in enabling users to access financial reporting disclosures in a way that is customised to their needs and capacity, as opposed to 'one size fits all' financial statements.

CHARTERED ACCOUNTANTS™
AUSTRALIA • NEW ZEALAND

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Guidance for the Board

We support the creation of guidance for the IASB for when it is developing and drafting disclosure requirements. However, it is not clear from the ED *where* such guidance would be located. In this regard we would support amendments to the IASB's *Due Process Handbook* that require the IASB to work more closely with users of financial statements and other stakeholders early in the standard-setting process to understand what information they need. We would also support the addition of a methodology in the *Conceptual Framework* to assist the IASB in developing and drafting disclosure requirements.

Approach to disclosures

We support the use of overall disclosure objectives within individual standards, including an explanation of how the information is intended to help users make economic decisions. However, outreach with our members and other stakeholders has identified several reservations about the practical application of the ED's proposals in relation to specific disclosure objectives and items of information. We recommend the IASB consider detailed feedback from preparers, auditors and regulators and the results of the field testing before proceeding further with these particular proposals.

On this basis, at present, we support the retention of specific disclosure requirements. However, we do believe that a standards-level review of the extant disclosure requirements is necessary to make clear, in consistent language, which of the disclosure requirements are always required and which are only required if material. Also, such a review will be important to remove any excessive, repetitive, or redundant disclosures.

Pilot standards

At this stage we do not consider that the IASB has sufficiently developed its case for user needs that underpin the proposed amendments to IFRS 13 *Fair Value Measurement* or IAS 19 *Employee Benefits*. Therefore, we have not responded to the questions raised on the proposed amendments to IFRS 13 or IAS 19.

We have provided our responses to the specific questions raised in the ED on the proposed Guidance for developing disclosure requirements in IFRS Standards in future in the **Attachment** to this letter. If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Simon Grant FCA
Group Executive – Advocacy, Professional Standing and International Development
Chartered Accountants Australia and New Zealand

Gary Pflugrath FCPA
Executive General Manager, Policy and Advocacy
CPA Australia

Attachment

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?

We support the use of overall disclosure objectives within individual standards, and we agree that they would help to determine whether information meets users' needs. Most recently issued standards (from IFRS 12 *Disclosure of Interests in Other Entities* onwards) include a disclosure objective paragraph. Most of these also have specific disclosure requirements (denoted by use of the word "shall") to meet those objectives. We support this approach and recommend that it be applied to all new standards going forward.

However, we do consider that a "standards-level review of disclosures" project is needed to review the existing standards to identify excessive or redundant requirements and inconsistent language. For example, there are several standards where disclosures are "encouraged" (e.g., IAS 7 *Statement of Cash Flows,* paragraph 50 and IAS 41 *Agriculture*, paragraph 43). There is also inconsistency in the use of bold type for disclosures.

Most standards state "The following shall be disclosed…" where 'shall' is used to denote mandatory requirements. However, IAS 1 *Presentation of Financial Statements*, paragraph 31 indicates that items should only be disclosed if they are material. It is unclear which requirement takes precedence. Preparers have told us that the concept of materiality as it relates to disclosures should be given more prominence. There would seem to be some disclosures that are always material and should always be disclosed – for example, the statement of unreserved compliance with IFRS (IAS 1, paragraph 16) and the date of authorisation of the financial statements (IAS 10 *Events after the Reporting Period* paragraph 17). Therefore, we recommend that clarity be provided around which disclosures are always material and which disclosures are subject to materiality.

Whilst the proposals in the ED seek to reinforce the concept of materiality, the ED does not explain the relationship between the proposed overall (and specific) disclosure objectives and the concept of materiality. The ED also does not explain the relationship between the proposed overall (and specific) disclosure objectives and the general disclosure requirements in IAS 1.

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?

We understand from preparers, auditors and regulators that the explanation of what the information contained in disclosures is intended to help users do with such information, provides useful contextual information. However, we are concerned that the proposals lack sufficient specificity that could lead to a significant level of entity-specific choice around what to disclose, leading to inconsistent approaches around what to disclose to meet the specific disclosure objectives. This approach is likely to:

- Require considerable attention from senior staff, management and boards/audit and risk committees,
- Be onerous with respect to the documentation required to demonstrate the judgement applied in determining what not to disclose,
- Create unnecessary tensions between preparers and external auditors, and
- Create enforcement challenges for regulators.

Feedback received from preparers, auditors and regulators, as noted above, has highlighted a number of challenges and, as such, we are not in a position to offer a view on the concept of specific disclosure objectives. In order to do so we would need to see the outcome of further outreach, and the field testing results. As we support evidence-based standard setting, we encourage the IASB to perform further research into whether the use of specific disclosure objectives does, in fact, result in information that better meets user needs.

Entities may disclose different information to meet the same specific disclosure objective depending on their circumstances. These variations will make it more difficult for users of XBRL-based digital reporting (or their models which consume financial data) to draw meaningful comparisons between entities, due to the lack of uniformity in reporting. Relevance is a fundamental qualitative characteristic in the *Conceptual Framework* and comparability is an enhancing qualitative characteristic. Achieving an appropriate balance between requirements to comply with disclosure objectives (i.e., relevance) and specific disclosure requirements (i.e., comparability) will be key.

Again, the ED does not explain the relationship between the proposed specific (and overall) disclosure objectives and the concept of materiality. The ED also does not explain the relationship between the proposed specific (and overall) disclosure objectives and the general disclosure requirements in IAS 1. This would assist with obtaining a better understanding of, and achieving an appropriate balance between, the qualitative characteristics of relevance and comparability.

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.

The IASB has identified that some entities currently struggle to make good judgements and apply materiality correctly when considering disclosures. Given that the proposals in the ED increase the application of judgement, this may further exacerbate this issue.

We have also heard that some preparers already find it difficult to document judgements applied in relation to recognition and measurement. If there was a move to specific disclosure objectives, we envisage that similar, if not greater, challenges would exist in the documentation required to demonstrate the judgement applied in determining what has been, and what has not been, disclosed.

The disclosure problem is multi-faceted. We consider it is only partly caused by how the standards are written. Another cause is a behavioural one, in how entities apply – or rather do not apply – materiality when assessing which disclosures to include. There still appears to be incentives to disclose too much, or too little, under the proposals in the ED. Therefore, the proposals are unlikely to change the behaviour of those preparers at either end of the spectrum, i.e., the proposals do not appear to provide a mechanism to avoid excessive disclosures or to ensure that a minimum level of appropriate disclosures is made where necessary.

The ED appears premised on the belief that a checklist is disadvantageous. However, used in the right way, checklists can be beneficial in promoting consistency. We urge the IASB to be cautious about dismissing a checklist approach because it may inadvertently be overlooking a simple, cost-effective tool for underpinning quality.

As previously mentioned, we have received feedback from stakeholders that the reduced specificity around what to disclose to meet the specific disclosure objectives is likely to create several challenges in practice. An objectives-based regime is resource intensive. The proposed approach appears more complex and time-consuming. Therefore, scaling this approach across more standards has resourcing implications for all parties.

The increased uncertainty is likely to require more attention from senior staff, management and boards/audit and risk committees. Senior staff and management would need to assess and potentially re-consider their processes to make boards/audit and risk committees comfortable with judgement-based disclosures, compared to the extant requirements of a perceived ‘safe’ lists of mandatory disclosure. There is a risk the proposals have not struck the right balance between principles and prescription to meet the objective of the project in the most cost-effective way.

The lack of specificity is also likely to result in different views among different stakeholders, for example between preparers and external auditors. It could be difficult in practice for auditors to conclude that the numerous additional judgements around disclosures made by preparers are reasonable. Also, it could create enforcement challenges for the same reason, with regulators finding it more expensive to operate within a regime driven by disclosure objectives.

With digital consumption of financial information becoming more prevalent, we encourage the IASB to further consider the interaction between the proposals in the ED and the increased use of digital reporting. We are concerned that a move away from specific disclosure requirements (subject to materiality) would adversely affect the comparability of the information, and hence the effectiveness of digital reporting. A proliferation of entity specific extensions would defeat the purpose of digital reporting, predominantly based on standardised tagging. With digitalisation of financial reporting, some of the issues cited in relation to the disclosure problem could even be resolved. For example, those problems related too much immaterial information being disclosed.

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?

Irrespective of how the items of information are written, the language used in standards could create a presumption that the items of information would satisfy the specific disclosure objectives. This could create a de facto checklist, resulting in little improvement on the current situation. The risk remains that those preparers who prefer a 'safe' approach will create a new checklist using the items of information listed in a standard as a basis.

In particular, the items of information (some of which are mandatory) continue to be visually presented in a checklist style in the test standards. It is possible that this may encourage some preparers who prefer to have a checklist to use the items of information in this manner, which would not achieve the desired change.

The responsibility would be on the preparer to demonstrate that they had considered each item of information, regardless of whether that item of information was ultimately disclosed. It is unclear the extent of the documentation that would be required to satisfy this expectation.

Preparers would also face challenges under the proposed regime in providing sufficient rationale to auditors, boards/audit and risk committees on the judgements they make about information to be included or excluded from the disclosures under the new regime. This could have the unintended consequence of entities disclosing all the items of information suggested because it is easier than justifying non-disclosure, which would undermine the intent of the proposals.

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).

We support the proposed changes to the process of developing disclosure requirements in terms of working more closely with users of financial statements and other stakeholders early in the standard-setting process to understand what information they need. However, it is not clear from the ED *where* such guidance would be located. In our view it is important that it is an integral part of the IASB's Due Process Handbook, which would clearly put the onus on the IASB, during its standard setting due process, to analyse the common information needs of users. It would be very onerous and duplicative if each individual entity had to conduct this exercise separately.

CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA AUSTRALIA

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

The scope of the project is restricted to primary users (BC Table 4) and the list of parties to be consulted appears to consist primarily of investors (paragraph BC36). We recommend that the needs of other primary users such as lenders and other creditors are explicitly scoped in as groups to be consulted during the development of disclosure requirements. We further note that user needs may change over time. Therefore, we suggest that a mechanism be included to enable the periodic reconsideration of user needs so that necessary adjustments can be made in the future.

We also support the development of a methodology for developing and drafting disclosure requirements (e.g., centralised disclosure objectives) with the same level of rigour as requirements for recognition and measurement. The purpose of the IASB's *Conceptual Framework* is to assist the IASB develop standards, including disclosure requirements. Therefore, in our view, any guidance that informs the IASB's standard-setting activities should be in the *Conceptual Framework*. For example, the IASB could build on what is already in paragraphs 7.4—7.6 of the *Conceptual Framework* in this regard.

Finally, we highlight that IASB ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* is not proposing to use specific disclosure objectives. This would mean that there would be two different approaches to disclosure within IFRS if both EDs were progressed in their current form. We do not believe this would be an appropriate outcome.