

19 January 2022

The Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam

Re: Exposure draft ED 2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach*

On behalf of the Institute of Public Accountants (IPA), I am writing to comment on the *Exposure Draft: ED 2021/3 Disclosure Requirements in IFRS Standards a Pilot Approach; Proposed amendments to IFRS 13 and IAS 19*.

Proposals not supported – an alternative approach

We note the reason for issuing the draft:

Stakeholders have told the Board they have three main concerns about information disclosed in financial statements. Collectively referred to as the ‘disclosure problem’, these concerns are that financial statements contain: (a) not enough relevant information; (b) too much irrelevant information; and (c) ineffective communication of the information provided.

While the IPA welcomes the IASB’s desire to address any issue of clutter in financial reporting, the IPA do not support the proposal to reduce the level of mandatory disclosures (subject to materiality) as illustrated in the pilot approach to reduced disclosures in IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* for the reasons stated below.

We much prefer the disclosure approach applied in recently-issued standards that started with IFRS 10 *Consolidated Financial Statements*. We would like to see all the older standards’ disclosure requirements revised to reflect that approach.

Furthermore, we strongly recommend that materiality requirements and application in IAS 1 be expanded by incorporating much of the guidance in practice statement 2 *Making Materiality Judgments*.

IPA concerns

As noted in our response to the draft in appendix A, the IPA has the following concerns:

1. The ability and willingness of many preparers to identify adequately users of financial reports and their information needs
2. The disclosure objectives do not strongly relate to the concept of materiality, nor do they sufficiently focus on accountability, transparency, and comparability
3. The proposals will create increased audit and regulatory issues by providing less certainty as to the adequacy of disclosures
4. The proposals will impede comparability of financial reports
5. The proposals are at odds with using technology in undertaking financial-reporting analysis. The application of such technology requires more specificity than what is proposed, and The proposals do not address disclosure failures, including:
 - a. The excessive use of “boilerplate” disclosures, particularly financial-risk disclosures those that might be applied in IFRS 7 *Financial Instruments: Disclosures*
 - b. The poor quality of disclosures in relation to management judgements in applying accounting standards IAS 1.122, and
 - c. The poor quality and lack of detail, particularly in relation to assumptions, sources of estimation uncertainty required by IAS 1.125 and individual standards such as IFRS 7.35G.

No comments on certain questions

Our responses to questions 1-5 apply to IFRS 13 *Fair Value Measurement* proposals. We have no specific comments on questions 6-11.

The IPA notes that the disclosures required by IFRS 93(d), (g) and (h) often lack clarity and detail on valuation techniques, assumptions, and sensitivity analysis. The IPA believes that the proposed changes to IFRS 13 will fail to address these shortcomings.

It should be noted that the lack of clarity about the valuation of unlisted investments held by Australian superannuation funds has resulted in a proposed legislative response that will require a greater level of disclosure of assumptions and value attributed to such assets.

The IPA does not have any specific comments for Questions 12-18 on the proposals for IAS 19 *Employee Benefits*. The focus on disclosures related to defined benefit funds, which are rare in Australia, and our responses to Questions 1-5 apply to the IAS 19 proposals.

Other related matters

The IPA believes the contents of general-purpose financial reports is heavily slanted towards institutional users of financial statements and their needs. As such, the IPA believes that the IASB should undertake an assessment of the needs of “retail” users of financial statements and develop a “concise” financial report tailored to them.

The institute has also observed that here in Australia the greater level of disaggregation and detail provided by preparers in preliminary announcements and investor presentations differ from similar disclosures provided in an audited financial report.

We believe that the IASB should undertake a project to determine the nature of such discrepancies and the steps that might be required to ensure consistency with disclosures in audited financial reports. This might ensure that general-purpose users are receiving the appropriate level of audited financial information.

Our detailed comments on questions 1-5 are included in the attached appendix.

If you would like to discuss our comments, please contact me or our technical advisers Stephen La Greca (stephenlagreca@aol.com) or Colin Parker (colin@gaap.com.au), *GAAP Consulting*.

Yours sincerely



Vicki Stylianou
Group Executive, Advocacy & Policy
Institute of Public Accountants

About the IPA

The IPA is one of the professional accounting bodies in Australia with over 42,000 members and students across 80 countries. Approximately three-quarters of our members either work in or are advisers to the small business and SME sectors. Since merging with the Institute of Financial Accountants UK, the IPA Group has become the largest SME and SMP focused accounting body in the world.

Cc:
Chair Australian Accounting Standards Board (AASB) and
Chair Australian Auditing and Assurance Standards Board (AUASB).

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?*

IPA response

While the IPA supports the intention to address clutter in financial statements, we are of the strong view that clutter is best addressed through the proper application of the concept of materiality and related practice statements together with the conceptual framework.

We have several concerns:

1. In attempting to declutter financial statements, the failures of many current disclosure requirements (for example, disclosures on estimates and assumptions used in recognition and measurement) will not be addressed. In fact, the degree of judgement required under the proposal will permit preparers to have undue influence on assessing the nature of such disclosures.
2. That largely abrogating responsibility to preparers for determining user requirements is beyond the ability of many preparers to undertake in a meaningful manner. Under the proposals, preparers will be required to identify potential users and the needs of all users that have been identified. The Australian experience with the reporting-entity concept and special-purpose financial reports, where management and the board were responsible for determining the existence of dependent users, led to a systemic failure to identify such users and the adoption of a minimalist disclosure regime consisting of solely those items explicitly required by accounting and ethical standards. The IPA believes that the consequence of the proposals will result in the distinct possibility of a similar outcome.
3. The IPA believes the proposals will impede comparability by increasing the diversity of information disclosed and decrease its utility.
4. The proposals are likely to create audit issues, as auditors will now be required to determine whether the preparers have adequately identified users and also appropriately assess their information needs. As noted above, the Australian experience with the reporting-entity concept and special-purpose financial reports exhibited a failure to identify dependent users and resulted in minimalist disclosures, an outcome that was not mitigated by audit. The IPA believes that there is a significant risk of the same outcome about disclosures if the emphasis is on disclosure principles at the cost of detailed requirements.
5. The IPA believes that the proposals are at odds with digital financial information's use for financial analysis. The lack of specificity in disclosure requirements combined with likely divergence in disclosures will impede and increase the costs of technology in financial analysis. Furthermore, it is arguable that excessive disclosure will become less of an issue as technology develops.

6. The IPA is concerned that the link between materiality and the proposed disclosure objectives is not clearly evident. The relationship between materiality and disclosure needs to be clearly articulated in any disclosure objectives.

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?

IPA response

The IPA supports the introduction of specific disclosure objectives for each IASB standard that reflect the principles of accountability, transparency, and comparability. However, for the reasons stated in our response to question 1, the IPA does not support the introduction of specific disclosure objectives in the absence of mandatory (subject to materiality judgements) minimum disclosure requirements. The IPA sees the concept of specific disclosure objectives as a mechanism to ensure completeness of disclosure and a method of addressing obfuscation.

Furthermore, the IPA is of the view that any introduction of specific disclosure objectives should be undertaken simultaneously across all IASB standards, the conceptual framework and practice statements.

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 of 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.*

IPA response

As noted in our responses to questions 1 and 2, the IPA does not support the proposal for reasons set out in our response to question 1.

The IPA believes that the judicious application of the materiality concept (particularly subsequent to its re-definition) should be the primary basis of addressing disclosure “overload” rather than eliminating mandatory disclosure requirements.

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?

IPA response

As noted in our response to questions 1-3, the IPA does not support the approach to disclosure as set out in the exposure draft for reasons outlined in our response to question 1.

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).

IPA response

Please refer to our covering letter for other comments.