International Acccounting Standards
Board (IASB)
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United Kingdom

12 January 2022

Dear Board Member,

Re: Exposure Draft: Disclosure Requirements in IFRS Standards—A Pilot Approach: Proposed amendments to IFRS 13 and IAS 19

BUSINESSEUROPE welcomes the opportunity to comment on this exposure draft (the ED). The issue of "disclosure overload" in relation to IFRS standards has been of great concern to our members for many years.

The overall approach to disclosure

We are, in principle, in agreement with the Board's objectives in developing this ED. While we commend the Board for tackling this complex and long-standing issue, we believe that the proposals in the ED may unfortunately lead to a situation in which no overall simplification or reduction in disclosures is achieved, while comparability between entities will be reduced and the effort required "behind the scenes" by preparers and auditors to justify what is disclosed and what is not disclosed will be significantly increased. In this, we are sensitive to the arguments included in the Alternative View in the ED.

We think that the key to the issue is still most likely to be found in a fundamental change in behaviours by many of the stakeholders. Specifically, a more rigorous application of the concept of materiality by preparers, enforcers and, in particular, auditors is required. It would be helpful if enforcers would not only penalise material non-compliance but also discourage exhaustive but unnecessary disclosure. There is nothing wrong with the use of a checklist to ensure that all requirements have been considered, as long as proper judgement is applied in sorting that information between that which is actually essential for users in the context of the entity and that which is an obstacle to understanding because it makes it difficult for users to identify what is the most important among the large quantity of information provided. The use of judgement might be better applied to the assessment about whether specified mandatory information is sufficiently material in nature or value to be disclosed.

The proposals will, in our view, still require a great deal of judgement to be applied by individual entities and this creates the risk that very different conclusions will be drawn concerning what is required, resulting in the provision of very varied information which would not facilitate comparison between entities. At the same time, the provision of a list of suggested information might continue to be treated as a "checklist" by some entities as the information will continue to have to be gathered and assessed for disclosure, with disclosure remaining the simplest way to comply with the objectives and avoid challenge. Overall, the result may not represent an improvement over the current situation.

It would be very helpful to preparers if the Board applied its approach, as described in the Basis for Conclusions, to obtain clear justification from users, supported by proper evidence, of the necessity of the information required and how it is intended to be used. This would enable preparers to understand better the needs of the users, and thus to provide more focused information and to avoid superfluous details.

Having said the above, we think that it would be worthwhile to pursue this approach but by applying it only to new or substantially modified standards. We think that, in the case of current standards, there is so much established practice in the provision of information in response to the "checklists", that it would be difficult for preparers and auditors to ignore what had habitually been provided and start from a clean page. A better test of the effectiveness of the proposed approach would therefore be in the context of materially new and different requirements.

The proposed amendments to IFRS 13 and IAS 19

From a preparer's point of view there is currently no need for additional disclosures or changes in the disclosure requirements of IFRS 13 or IAS 19. The redrafting of the two standards as proposed does not appear to provide any simplification or clarity and may actually lead to the establishment by auditors and enforcers of broader checklists than those based on mandatory requirements of current standards, on the basis that if one company provides a certain piece of information why don't all similar entities provide it. We would therefore propose that the Board limit the introduction of the proposed disclosure objectives (general and specific) to those standards that are currently under review by the Board or to standards that will be developed in the future, but not to existing standards where no need to improve the current disclosures has been identified.

Responses to specific question as posed in the ED are provided in the Appendix.

If you require any further information on this, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser

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?

We agree that the use of overall disclosure objectives would be useful in future standards.

It would help entities, auditors and regulators to determine whether the information provided meets the users' needs. However, if the objectives are not sufficiently delimited, this approach also brings with it the danger that the entity will always be open to the challenge that it has not provided all the information that is necessary to meet the general objective. In order to ensure that the users' needs are adequately met while at the same time avoiding any risk of debate over whether entities have responded appropriately and exhaustively to the objective, both the objective and the needs of users must be concisely defined.

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 agree that specific disclosure objectives and a clear explanation of the users' information needs and why they need this information can help entities to apply judgement effectively. These would also help auditors and regulators to assess whether the entities have applied their judgement effectively in drawing up their financial statements.

However, as mentioned in our response to Question 1, we think that a satisfactory result will be achieved only if the users' needs are clearly stated and justified, and the use to which the data will be put, are explained in specific terms. Explanations which are limited to wording such as, for example, "information for analysts to use in their models" would not be helpful.

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.

While we support any initiative which will increase the effectiveness of the application of judgement, we are not convinced that the proposed approach will give better results than the current approach which requires entities to apply an appropriate use of the characteristic of materiality to determine whether and what to disclose.

The use of checklists is not inherently a bad thing: it helps avoid omissions by ensuring that all relevant elements have at least been considered and that comparable information is disclosed by entities when it is material. In addition, any attempt to reduce the use of checklists will not result in major reductions in effort as entities will always have to collect sufficient information relating to all relevant disclosures in order to make a judgement about what should actually be published.

However, the proposed approach would, in our view, create the possibility that the use of judgement will lead to entities making different decisions resulting in an overall lack of comparability between entities, and users being unable to make meaningful comparisons. It is of course very difficult to get the right balance between comparability and entity-specific information, but on balance the better approach might be for the Board to identify what users really need (and not what they would like to have on a “nice-to-have” basis) and then for preparers to provide this information if it is material and to add relevant entity-specific information, again if material to the understanding of its situation. In other words, it might be more efficient overall for the Board to identify, with solid supporting evidence, what is required as a minimum rather than to leave it up to each entity to carry out the same work on an individual basis. Once the entity has determined what information it should provide to satisfy the requirements, it would then be very helpful if auditors and regulators would analyse the quantity and quality of information provided and give constructive independent feedback on how to improve both the content and the layout of the information so that the disclosures enhance rather than hinder understanding.

In our view, this approach would be as follows:

- It is the Board’s role to identify information that is essential for users and to avoid including any “nice-to-have” elements, while allowing for entities to add entity-specific information to this;
- Entities, with the advice of their auditors, should make a reasoned selection of the information to disclose on the basis of relevance and materiality, and should be able to do so without fear of penalty when they can show that the omission of certain information is justified;
- Regulators should penalise only omission of clearly material elements and provide constructive criticism about information which is not material and is redundant or might obscure the impact of the more relevant and material information.

What is fundamental to any improvement in the quality of disclosures is the proper application of judgement based on materiality as defined in the Conceptual Framework and IAS 1, and with regard to the Materiality Practice Statement. The essential pre-requisite for this is a change in behaviours by the entity, the auditor and the regulator.

The use of general and specific objectives and the identification of examples of information that would meet the objectives is helpful but proper application of the concept of materiality is the key.

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?

We agree that the wording makes it clear that the information is not obligatory and that consequently judgement should be applied.

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 understand that the proposed Guidance included in paragraphs DG1-DG13 is intended to help the IASB develop disclosure standards which would effectively and efficiently target users' needs.

We consider that paragraphs BC27 to BC56 represent an excellent set of principles for the methodology the Board should apply to all its standard-setting projects. We would expect that any project undertaken using this methodology when accompanied by a clear and exhaustive explanation of the results of all the consultation findings would result in standards which would enable preparers both to understand what is required and to provide adequate and useful information well-targeted for users' needs.

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?

In our opinion the disclosure objective is already given in IFRS 13 par. 91 and the existing disclosure objectives materially respond to the proposed overall objective in the ED. We therefore do not see that an explicit statement of an overall disclosure objective as laid out in the ED provides for more useful information than that already provided.

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.

We have no comments.

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?

We have no comments.

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?

See response to Question 11.

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?

We have not been able to identify any substantial changes to the requirements of existing IFRS 13 proposed in the ED since the standard already responds to the proposed specific disclosure objectives. However, the revised wording in the ED appears to us to be more complicated and less easy to understand than the current standard.

In our practical experience users are generally satisfied with the disclosures provided regarding the fair value measurement and the additional disclosure provided for material

Level 3 instruments. We think that there is currently no need to change the disclosure requirements. Therefore, from our point of view the ED does neither result in any simplifications nor in any improvements and thus will not result in the provision of more relevant and less irrelevant information.

Accordingly, we do not see any necessity in changing the current IFRS 13 disclosures and thus preparers should not have to bear any additional costs with the introduction of the proposed IFRS 13 disclosures as we currently see no room for substantial improvement.

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?

As a corollary to the revision of IFRS 13, we think it would also be helpful to preparers and users if the Board were to take the opportunity to reconsider whether it is necessary for fair values to be provided for assets and liabilities are measured at amortised cost or other values which are not fair values, as required by other standards (such as, IAS 16.79(d)…). We think that this disclosure requirement, which has existed for some time, always raises the question of whether the measurement requirement of the standard is the most appropriate and thereby undermines the approach required by the standard.

We have no further comments.

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?

The stated overall disclosure objectives of IAS 19 to (a) assess the effect of defined plans to the entity's financial position financial performance and cash flows; and (b) evaluate the risks and uncertainties associated with the entity's defined benefit plan are already included in the current version of IAS 19 in par. 135-138. From our point of view, the current IAS 19 disclosure requirements already result in the provision of effective disclosures, i.e., useful information that meets the users' overall information needs for defined benefit plans. Therefore, we see no benefit to the introduction of IAS 19.147A-C.

An additional problem we identified is that the Board has to bear in mind when formulating overall disclosure objectives for users that there are different user groups which have different information needs. This should also be addressed in the overall 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.

It is indeed important to engage investors early in the standard-setting process, and then develop specific disclosure objectives based on their information needs combined with guidance how to achieve those information needs. What we think is missing from the ED is the provision of further input from users on what information really is lacking in current IAS 19 disclosures. In our practical experience users are generally satisfied with the disclosures provided regarding defined benefits plans, as indicated by the fact that questions regarding defined benefit plans and IAS 19 disclosures raised of our investor relations department or in annual shareholder meetings are very rare.

From a preparer's point of view there is therefore currently no need for additional disclosures or changes in the disclosure requirements of IAS 19. We would therefore propose that the Board limit the introduction of the proposed disclosure objectives (general and specific) to those standards that are currently under review by the Board or to standards that will be developed in the future, but not to existing standards where no need to improve the current disclosures has been identified.

When analysing the specific disclosure objectives in the ED and comparing them with the current IAS 19 disclosure requirements we did not identify many noteworthy differences. Therefore, from our point of view the ED results neither in any simplifications nor in any improvements and thus will not result in the provision of more relevant and less irrelevant information. The increased application of judgement and materiality required with the new ED might even worsen the disclosure problem and result in more irrelevant and less relevant information.

Accordingly, we do not see any necessity in changing the current IAS 19 disclosures and thus preparers should not have to bear any additional costs with the introduction of the proposed IAS 19 disclosures as we currently see no room for improvement.

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?

In our opinion, there is no need to change the IAS 19 disclosure requirements.

When including specific disclosure objectives, the Board should also provide the appropriate disclosures to meet these objectives and should not leave all this to the preparers (auditors and enforcers). The problem we see with the new proposal is that preparers will have to explain how they satisfied the specific disclosure objectives and to prepare comprehensive documentation explaining why certain proposed items of information were made and why others were omitted. This will result in additional costs as all information has to be gathered and evaluated first. Moreover, extensive documentation is necessary including increased discussions with auditors on the proper fulfilment of the disclosure objectives and eventually even discussions with enforcers who might have a different view.

The missing guidance regarding the information to be disclosed in order to achieve the disclosure objectives will also result in enforcement issues for auditors and regulators as they have to determine whether the preparers meet the disclosure objectives. Hereby, the increased application of judgement and materiality required with the new ED might lead to a deterioration of the disclosures for defined benefit plans and thus increase the disclosure problem.

Another issue is comparability which is difficult to achieve when preparers can provide different forms of information to meet a certain disclosure objective. In order to ensure comparability and to reduce comprehensive documentation requirements for preparers the Board needs to determine the disclosure requirements necessary to meet the users' needs that have to be consistently applied by all preparers if material. This would contribute to comparability.

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?

BC156 states that users would like to understand how an entity's defined contribution plans have affected the primary financial statements. Accounting for defined contribution plans is straight-forward and the requirement to disclose the amount recognized as an expense for defined contribution plans is already included in IAS 19.54. Except for the expense and the cash outflow defined contribution plans do not affect the primary financial statements. Therefore, we do not see how this proposed objective will result in improved information compared to the current IAS 19.

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?

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?

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?

We have no further comments.

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