Think Ahead ACCA

Disclosure requirements in IFRS standards – a pilot approach

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Comments from ACCA
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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the exposure draft (ED) of a pilot approach to disclosure requirements in IFRS which was done with the assistance of ACCA's Global Forum for Corporate Reporting.

We agree with the analysis of the problems around note disclosure in financial statements that in too many cases there is

- Not enough relevant information
- Too much irrelevant information
- Information could be better presented

While we welcome requiring financial statements to meet specific disclosure objectives, making much of the information to be disclosed non-mandatory seems a retrograde change. This approach may help with reducing irrelevant information but at the risk of reducing relevant information. The omission of relevant information is the greater problem than the 'clutter' issue.
The proposals may also

- reduce comparability between financial statements
- be more costly to apply
- less appropriate for digital reporting

The ED's approach would require more judgement and a change in mindset from management in preparing accounts. To make this change may take time and effort from a number of parties – including educators, accountants, auditors, standard setters and regulators. Education and suitably worded guidance could help. This increased judgement is also being required in other aspects of corporate reporting such as the coverage of topics that should be included in sustainability reports. Without this change in mindset we are particularly concerned that the approach in this ED may not work well with smaller companies and in less developed capital markets where the proper application of principle-based standards is still progressing and where the understanding of users' needs may not be sufficient.

RESPONSES TO SPECIFIC QUESTIONS RAISED

Question 1—Using overall disclosure objectives

(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 have no problem with including an overall disclosure objective in IFRS in future. We think, however, that these overall objectives may take a rather generic and standard form in the different IFRSs and so perhaps there could be a general one included in IAS1 which would suffice. The specific disclosure objectives are likely to be more useful to the preparers, auditors and regulators in considering at least whether all relevant information has been included.

Question 2—Using specific disclosure objectives and the disclosure problem

(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 with IASB's analysis of the disclosure problems – that there is not always enough relevant information, there may be irrelevant information and the communication of information is not done well enough.

We support the standards including specific disclosure objectives as being helpful for preparers particularly in tackling the first of these problems. They will help in setting out some of the context for the disclosures and in particular by explaining the ways in which readers of the financial statements are likely to use information. This would be of particular importance with smaller companies and in less developed capital markets.

The specific disclosure objectives are unlikely to help remedy the problem of the inclusion of irrelevant information which is principally the result of preparers not exercising judgement properly in considering materiality.

We do not consider that the specific disclosure objectives on their own would be sufficient to ensure high quality reports – see our answer to Question 3.

Question 3—Increased application of judgement
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.*

(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.

We do not agree with the approach proposed in this ED of using less prescriptive language when referring to items of information to meet specific disclosure objectives. We are generally supportive of the alternative view of the dissenting board members.

Specific disclosure objectives and the items of information needed to meet those should both be stated as requirements. These would then need to be subject to judgement whether these are material to external parties, included if so and omitted if not.

We note that the approach in this ED of not providing a checklist of information disclosures and that instead sufficient relevant information to meet specific objectives is provided, can be helpful in

- emphasising to preparers that judgment and thought is required to comply with IFRS
- reducing unnecessary information that might clutter the financial statements and obscure the more relevant data
- reducing the use of 'boiler plate' information.

On the other hand, a list of required information to be disclosed to meet the specific objective can be useful in

- ensuring the inclusion of all relevant information which in our view is more important than eliminating the irrelevant
- being easier and less costly for preparers to apply and less likely to be challenged by auditors and regulators
- achieving greater comparability between reporting entities
- being more compatible with the digitalisation of reporting than simply requiring objectives to be met

Many studies of compliance IFRS have found that material disclosures are often not provided under the current set up *(see for example, Tsalavoutas et al., 2014 and Tsalavoutas et al., 2020)*. There is academic evidence which suggests that varying levels of compliance with IFRS mandatory disclosure requirements have an effect on various market outcomes like cost of equity capital, analysts' forecasts errors and cost of debt (see for example, Mazzi et al., 2017, André et al., 2018 and Almaghrabi et al., 2021). Making many specific disclosures non-mandatory in future might be seen as weakening the current requirements. Without the change in mindset referred to in our general comments above, there would be a risk of further decreasing the financial information available to investors and others.

Currently companies should take the required specific disclosures and apply an entity-specific materiality filter to them. Under these proposals they would be asked to consider which items of information users might want to see in order that the disclosure objective is satisfied and then apply the materiality filter. We think that the IASB with its greater interaction with users is better placed to make the first of those assessments.

The approach proposed would involve a greater application of judgement which would require a significant change in approach and mindset and that active steps would be needed to realise that change (as noted in our general comments above). We are particularly concerned that without these steps, this greater exercise of judgement and awareness of the needs of investors and other users may be less reliable among smaller companies and in less developed capital markets.

Applying greater judgement is likely to lead to greater costs for companies in doing so in terms of their own time, audit costs and regulatory enforcement. Greater judgement will also likely to be needed with developments in non-financial reporting and assurance and it may be useful to compare the evidence on costs in both cases.

Many would see the checklist of disclosures as being helpful if applied with a proper materiality judgement and that the problem of too much irrelevant information could be resolved in that way without this change to the standards.

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'.

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?

As noted in our answer to Question 3 we do not support this use of less prescriptive language.

If the proposed approach is nevertheless adopted, then the "while not mandatory …" wording should be made more positive for example with "The following should be considered to meet the objective".

There are currently some examples of disclosures in IFRS that are "encouraged but not required" and these are often ignored.

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).

The ED states that the proposed Guidance will be an internal document and not part of the standards. IASB should address the status of the Guidance more fully – will it be part of the Conceptual Framework or will it be more like the Due Process Handbook?

Once the Guidance is agreed it would be helpful to understand how IASB intend to roll out any consequent disclosure changes across the suite of IFRS. Will this be done on a systematic basis, or only as new or revised standards are produced? The implications of having significantly different disclosure approaches in different standards need to be considered. One possible approach would be for the board to focus on providing specific disclosure objectives for all standards.

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

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

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?

See our response to Question 1 above. While we have no objection to the overall disclosure objective for IFRS13 we note that it adds little to what is in the specific disclosure objectives.

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

(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 are not clear that providing a range of reasonably possible fair values is an improvement on the current position of using management's best estimate of fair value together with disclosing sensitivities. We otherwise support the specific disclosure objectives in the ED.

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

(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?

See our response to Question 3 above.

All the items of information should be required disclosures subject to their being relevant and material. For example, the matters included in 106(a) virtually replicate the requirements of the objective in 103(a) and so should be required as otherwise those two paragraphs might seem to be contradictory – one a requirement and the other non-mandatory.

We support the extension in paragraph 117(a) to level 2 of the requirement for a table of movements in the period.

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

(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?

We agree with the 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

(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 agree with the proposed required information in paragraph 120.

See our response to Question 3 above.

The matters covered in paragraph 121 should be required.

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?

No further comments.

Proposed amendments to IAS 19 Employee Benefits applying the proposed Guidance

Question 12—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?

While we agree with the overall objectives for the disclosures in IAS19, see our response to Question 1.

Question 13—Specific disclosure objectives for defined benefit plans

(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.

We support the proposed specific disclosure objectives. In particular, we support 147D as an improvement on the current provisions in IAS19.

We question the adequacy of the disclosure under 147N of simply the time frame for plans closed to new members without any quantification of the amounts involved.

Question 14—Information to meet the specific disclosure objectives for defined

(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?

We agree with the proposed required information in paragraphs 147F, 147M and 147V.

We note that the components in 147F do not entirely cover all the components in 147V and the IASB should consider making them more consistent.

See our response to Question 3 above.

All the items of information should be required disclosures subject to their being relevant and material. In addition we not clear why the discount rate used is not included as an assumption in 147L.

We note that the level of aggregation in large groups with different schemes remains a matter of significant judgement for the preparers and any further guidance from the IASB would be helpful.

Question 15—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?

We support the overall disclosure objective for defined contribution schemes. We note that this is stated only as an objective and no specific information is indicated.

Question 16—Disclosures 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?

We agree with the specific disclosure objectives proposed.

Question 17—Disclosures 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?

We agree with the specific disclosure objectives proposed and that these represent an improvement on the position currently in IAS19.

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?

No further comments.

References

Tsalavoutas, I. André, P. & Dionysiou, D. (2014). Worldwide application of IFRS 3, IAS 36 and IAS 38, related disclosures, and determinants of non-compliance. ACCA research monograph no. 134. https://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/rr-134-001.pdf

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André, P. Dionysiou, D. & Tsalavoutas, I. (2018). Mandated disclosures under IAS 36 Impairment of Assets and IAS 38 Intangible Assets: value relevance and analysts' forecasts, Applied Economics, 50(7), pp. 707-725.

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