BNP PARIBAS

Deputy Chief Financial Officer

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IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom
commentletters@iasb.org

Comments on IASB Exposure Draft on Disclosure Requirements in IFRS Standards – A Pilot Approach, proposed amendments to IFRS 13 and IAS 19 ("ED")

We are pleased to provide BNP Paribas' comments on the **IASB Exposure Draft on Disclosure Requirements in IFRS Standards – A Pilot Approach, proposed amendments to IFRS 13 and IAS 19.**

We welcome the efforts and work of the IASB to address the disclosure problem. The disclosure approach proposed in the ED is conceptually appealing; however, we have concerns over whether the approach will work in practice as it is intended.

As highlighted in the alternative view in the Basis for Conclusions on the ED, developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items of information will increase enforcement challenges, impair comparability and be more burdensome for preparers with increased reliance on materiality judgements.

As the approach relies heavily on judgement that will be applied by numerous parties (preparers, auditors, regulators etc.), it is not possible to assess with any certainty through the exposure draft process what the real effects of applying the new approach will be.

Given the approach represents a fundamental change and the actual effects of its application are uncertain we think (if the IASB decides to go forward with this approach) it would be better to apply this approach prospectively when new standards are developed. We do not think it is justified from a cost benefit perspective to 'retrofit' this approach to make fundamental changes to the existing disclosure requirements in two existing standard (IFRS 13 and IAS 19).

We have only commented on the questions related to the proposed guidance and the proposed amendments to IFRS 13 that particularly affect us. We have not commented on the proposed amendments to IAS 19.

Should you have any questions regarding our comments, please do not hesitate to contact us.

Yours sincerely,

Véronique Cotten

Question 1

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 proposal to use clear overall disclosure objectives for future standards.

The overall disclosure objective should be consistent and coherent with the other accounting requirements in the standard. It is then preferable if this new disclosure approach is applied prospectively to new standards and so the overall disclosure objective is developed in tandem with the other accounting requirements in the standard.

Question 2

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 think this approach is conceptually appealing but we have reservations over whether it will actually work in practice.

The specific objectives are high-level statements and so (in the absence of required disclosures of specific items) it is very judgmental to decide what level of disclosures are required in order to meet the specific objectives. These judgements will need to be applied by numerous different preparers, auditors and regulators. Consequently, it is difficult to predict the actual effects of applying this new approach.

As the approach represents a fundamental change and the outcome is uncertain, we do not think it should be retrofitted to existing standards leading to fundamental changes to disclosure requirements even in areas where no specific issues have been identified.

This approach is expected to reduce comparability. This could be the case for example when entities make different judgements about how to satisfy a disclosure objective as described in paragraph BC197(c) of the Basis for Conclusions on the ED. This paragraph gives an example where individual circumstances might mean that different items of information would more effectively satisfy the same specific disclosure objective for two different entities.

Another scenario that should be acknowledged is where two entities in similar circumstances apply subjective judgement differently, and this leads them to disclose different information (as they make different judgements about what information to provide to satisfy the same specific disclosure objective).

Entities in similar circumstances (such as large banking entities applying the IFRS 13 requirements to similar portfolios of financial instruments) may seek to mitigate this risk of applying judgement differently and from being challenged on these subjective judgements by auditors and regulators. Possibly industry preparer groups, auditors and regulators may form working groups to agree a common list of specific items of information that are collectively accepted as sufficient to satisfy the specific disclosure objectives.

Question 3

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.

As mentioned in our previous response this approach to address the disclosure problem is conceptually appealing but we have reservations over whether it will actually work in practice. We share the concerns described in the alternative view in the Basis for Conclusions on the ED. Namely, developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items of information will increase enforcement challenges, impair comparability and be more burdensome for preparers with increased reliance on materiality judgements.

Question 4

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?

The wording in the standard is clear that the information is not mandatory but it may enable the entity meet the disclosure objective. However, given the difficulties with applying judgement we are concerned that in practice the regulator and auditor expectations will be that preparers provide this information (even if it is not mandatory). This may then contribute to the problem of too much irrelevant information being disclosed.

Question 5

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 expected effects in paragraph BC188-BC212 of the Basis for Conclusion seem quite theoretical. They assume that the requirements are applied properly in the spirit that the IASB intended. The analysis assumes the impacted stakeholders (auditors, preparers, regulators) have a full understanding of the intention of the new approach and are able to properly agree on numerous difficult subjective questions about the specific items of information which should be disclosed to comply with the specific objectives.

In practice, the actual the effects of this ED are very uncertain as they will depend on the judgements and decisions of many different stakeholders (preparers, auditors, regulators etc.) and so they may be significantly different from those set out in the theoretical effects analysis.

Question 6

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?

There is currently a disclosure objective in paragraph 91 of IFRS 13. The disclosure objective in the ED revises the wording of the objective and de-emphasizes Level 3 fair value measurements. Although we understand the rationale of removing such emphasis on Level 3 measurements, we do not think that providing additional information on other Levels of the fair value hierarchy would be useful to users of the financial statements.

In addition, reformulating this broadly worded overall objective may have a limited impact on the actual specific information disclosed, which will rather depend on the specific disclosure objectives.

Question 7

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.

As described in our responses to the earlier general questions, the practical effect of this approach based on specific disclosure objectives is very uncertain. Accordingly, we do not think this approach should be applied at this stage to fundamentally revise the existing disclosure requirements in IFRS 13.

Question 8

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

Subject to our previous comments expressing concerns with making fundamental revisions to IFRS 13 disclosure requirements, we are commenting below on specific items of information that are either required to be disclosed or that may be disclosed to enable the entity to meet the disclosure objective. We are only commenting on those items where we have specific observations.

Financial instrument by fair value level (paragraph 105): We agree that this should remain a mandatory disclosure as it provides useful information.

Description of significant valuation techniques, changes in techniques and information about significant inputs (paragraph 110 a to c): We note that such drafted disclosures are similar to the current requirements set out in paragraph 93 d) of IFRS 13, which focus on Level 2 and 3 measurements. We recognise that such information have proven to be useful when users requested certain clarifications. However, the proposed paragraphs could entail providing additional information on Level 1 measurements as well as quantitative information about significant inputs (most likely on Level 2). We do not think that extending such the current additional information would be useful, as we do not perceive any strong expectation from investors or analysts.

Reasonably possible alternative fair value measurement (paragraph 113): There is significant complexity and judgement in providing alternative fair values using inputs that were reasonably possible. One reason is that there is a potentially great diversity of significant inputs to valuation models, which may change in nature from one period to another. Consequently, there is likely to be wide diversity in practice in how entities perform this analysis which may mean the disclosures are of limited value to users. Similar to the notions used in the EU regulation on prudent value, it may be helpful for the IASB to consider basing the alternative fair value disclosure on the degree of confidence which the entity has that they could exit the position at that alternative value. Basing the disclosure on shared prudent value regulation may result in more comparable information which may be more useful.

Roll-forward table for recurring fair value measurements categorised in Level 3 (paragraph 116): As stated in our response to the IFRS 13 PIR this table is costly to prepare and to our knowledge it is of limited value to users of financial statements. Accordingly, we think this should not be a mandatory disclosure.

Significant reasons for changes in recurring fair value measurement other than those categorised in Level 3 (paragraph 117 (a)): While this is not mandatory, we are unclear about the rationale for extending information to fair value measurements beyond Level 3. There is discussion in the ED about the fair value hierarchy being a continuum of measurement uncertainty and subjectivity, with a large amount of detailed information disclosed about Level 3 but only limited information about Level 2. The ED then suggests that more information should be disclosed about the more unobservable part of Level 2 (so called 'Level 2b').

We think that if a roll-forward table is disclosed for Level 2b it will merely shift the focus from the current boundary between Level 2 and Level 3 to a new boundary between Level 2a and Level 2b. As the fair value hierarchy is a continuum of measurement uncertainty and subjectivity, a high degree of judgement will remain. The definition of those boundaries might remain somewhat arbitrary.

In practice, events with material impacts would generally be disclosed, as required by IFRS 13 and upon application of judgement. However, we fear that paragraph 117 of the ED would introduce an implicit expectation to disclose Level 2b measurements on a more systematic manner.

Question 9

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?

As we said in our response to the IFRS 13 PIR '*we do not consider that the requirements to disclose the fair value of financial instruments accounted for at amortised cost (IFRS 7 para 25) are coherent with the business model of the entity and with the way the related operations are accounted for . For financial instruments that are not measured at fair value in the statement of financial position, the gains or losses are not driven by their fair value and therefore neither the fair value, not the level of judgement to measure fair value has an impact on P&L.*'

These are by far the most significant assets and liabilities in our statement of financial position but for which fair value is disclosed in the notes even though not used internally whether for monitoring or for other purposes. Consequently, as we do not support the requirement to disclose these fair values in paragraph 25 of IFRS 7 we also do not support the disclosure of further items of information in relation to these fair value measurements as proposed in the ED.

Question 10

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?

Please see our response to question 9.

Question 11

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?

We have no further comments.