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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

3 November 2021

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Our Ref: 2021/O/C1/IASB/MS/136

RE: Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*

Dear International Accounting Standards Board (IASB or the "Board") members,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high-quality accounting standards, including rigorous application and enforcement. Members of Committee 1 ("Members") seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. Unless otherwise noted, the comments provided herein reflect the consensus among Members and are not intended to include all the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

We agree with and welcome the Board's decision to address the 'disclosure problem' in an effort to focus disclosures provided in financial statements on that which is relevant and is communicated effectively to financial statement users. We also agree with the Board's plan to utilize overall and specific disclosure objectives to provide context regarding the needs of financial statement users. However, we have concerns that the approach the Board is proposing in the Exposure Draft which includes a combination of "mandatory" and "non-mandatory" disclosures may result in challenges enforcing the inclusion of relevant information to meet the disclosure objective by auditors and regulators; increase costs for preparers, auditors and regulators; and may hinder achieving comparability among issuers for which similar information is material.

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Using Overall and Specific Disclosure Objectives to Promote Increased Application of Judgment

We agree with the Board's proposal to use overall disclosure objectives within IFRS standards as we agree that the objectives provide issuers with helpful context in assessing which information should be provided to meet the overall needs of financial statement users. We also support the Board's proposal to include specific disclosure objectives which balance relevant entity-specific information with information that is comparable across entities, as well as providing context to explain how the specific disclosure objectives are intended to help users. We believe it is essential that any future approach is applied consistently across all standards.[1]

We also appreciate the Board's promotion of judgment in order to encourage issuers to move away from applying disclosure requirements like a checklist and to instead focus on effectively communicating the information that is most relevant to users. However, Members have concerns that the overall and specific disclosure objectives may lack enough specificity to allow auditors and regulators to enforce the disclosure objectives given the non-mandatory nature of many of the items of information (particularly if issuers deem certain relevant disclosures to be commercially sensitive). Members observed that increasing the degree of judgment applied by preparers may result in a decrease in comparability across entities that might choose different approaches to achieve specific disclosure objectives. Given the increasing reliance on digital reporting, we believe ensuring the availability of comparable information will be crucial for financial statement users. As digital reporting's increasing prevalence will continue to improve financial statement users' ability to assess and analyze information across the financial reporting ecosystem, the Board should prioritize requirements that result in all material and relevant information being disclosed.

With regards to the use of "non-mandatory" language to describe items of information that may enable an issuer to meet the disclosure objectives, Members are concerned that the terminology may be difficult to interpret and could result in entities not disclosing material items of information. We believe that in most instances a non-mandatory item of information that is quantitatively or qualitatively material will be necessary to comply with the overall and specific disclosure objectives of an IFRS standard. Members

[1] Currently there is diversity across standards. For example, a general provision to provide additional disclosures is already included in IAS 1 *Presentation of Financial Statements* paragraph 31 which requires entities to provide additional disclosures when "compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance." However, some objective-based disclosure standards, such as IFRS 12 *Disclosure of Interests in Other Entities*, include such a requirement as well (IFRS 12.IN10), whilst others, such as IFRS 7 *Financial Instruments – Disclosures*, only contains such a provision for part of the topics covered by the standard (IFRS 7.35E).

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also believe that introducing non-mandatory disclosure items is unnecessary for entities that already provide thorough and robust information to financial statement users, but may be seen as an invitation to disclose less information (and make it more difficult for auditors and regulators to challenge the sufficiency of those disclosures).

An alternative to the approach proposed by the Board that is supported by Members is to develop a list of "mandatory" disclosure items and to reemphasize the importance of using judgment in the application of materiality to remind preparers that the disclosures should be focused on the provision of information that is material to financial statement users. Members believe the evaluation of whether disclosure items help satisfy the overall and specific disclosure objectives would aid entities in their determination of which disclosure items are material, with items that are immaterial not requiring disclosure. Proponents of this view note that the Board, through its research and outreach efforts, is best positioned to determine the most useful information to users, while still empowering preparers to make materiality judgments in determining what information should be disclosed. In addition, the Board could consider the development of various illustrative examples to further emphasize and demonstrate the use of judgment in meeting the disclosure objectives. We acknowledge that this view is in line with the way disclosure guidance is intended to be applied today, however we think greater emphasis on materiality through application of overall and specific disclosure objectives, applied consistently across all standards, would support achieving those intentions. We also note that this alternative view is consistent with the views of the three dissenting Board members described in the Exposure Draft.

Another alternative suggested by some Members is to approach disclosure requirements from the opposite perspective. Instead of including mandatory and non-mandatory items, this approach would include a single, non-exhaustive list of potential disclosure items that may be utilized to satisfy the overall and specific disclosure objectives. Proponents of this approach believe that including "mandatory" and "non-mandatory" items inherently places less emphasis on non-mandatory items and may introduce a bias toward excluding those non-mandatory items. An approach that provides a list of potential disclosure items without designating items as either mandatory or non-mandatory would maximize the amount of judgment required to be utilized by preparers, and may be the approach that most encourages inclusion of items outside of the non-exhaustive list. However, we acknowledge that this approach would likely introduce additional cost into the system for preparers and auditors and could raise comparability concerns as discussed earlier.

Regardless of the approach chosen, we are supportive of the Board's proposed process improvements in drafting disclosure requirements outlined in BC31 through BC56, particularly the Board's plan to discuss disclosure objectives and information to meet those objectives throughout the life of a project.

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Proposed Amendments to IFRS 13 *Fair Value Measurements*

We agree with the overall and specific disclosure objectives included in the proposed amendments to IFRS 13, including the requirement to consider the level of detail necessary to satisfy the disclosure objectives to ensure relevant information is not obscured by insignificant details. Regarding the items of information necessary to meet the specific and overall disclosure objectives, we have similar concerns as those expressed above regarding the use of mandatory and non-mandatory disclosure items and a view that all disclosure items should be required if they are material. Finally, there are certain disclosure items that, if the mandatory versus non-mandatory framework is retained, Members believe should be considered mandatory when the information is material, specifically (a) the information in paragraph 110 related to valuation techniques and significant inputs used; (b) the information in paragraph 113 related to the range of alternative fair value measurements and how that range was calculated; and (c) the information in paragraph 117 related to transfers into and out of levels of the fair value hierarchy.

Proposed Amendments to IAS 19 *Employee Benefits*

We agree with the overall and specific disclosure objectives proposed related to defined contribution and defined benefit plans, including multi-employer plans and defined benefit plans that share risks between entities under common control, and other types of employee benefit plans. We again have similar concerns as those expressed above regarding the use of mandatory and non-mandatory disclosure items. There are also certain disclosure items related to employee benefits that Members believe should be considered mandatory when the information is material, specifically (a) descriptions of plan-specific investment risks, fair values of plan assets by class, and expected return on plan assets as per paragraph 147I; (b) quantitative information about expected future contributions as per paragraph 147L; (c) information related to the weighted average duration of the defined benefit obligation and number of years over which the benefits are expected to be paid as per paragraph 147P; (d) the significant assumptions used to determine the benefit obligation and alternative assumptions reasonably possible that could have significantly changed the benefit obligation as per paragraph 147S; and (e) the information about reimbursement rights as per paragraph 147W. Finally, Members believe the tabular reconciliation required by paragraph 147V should be given separately for the plan assets, the defined benefit obligation and the asset ceiling.

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Makoto Sonoda

Chair
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