



KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

reinhard.dotzlaw@kpmgifrg.com

Mr. Andreas Barckow
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref RD/288

12 January 2022

Dear Mr. Barckow

Comment letter on Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach, Proposed amendments to IFRS 13 and IAS 19*

We appreciate the opportunity to comment on the International Accounting Standards Board's ('the Board') Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach, Proposed amendments to IFRS 13 and IAS 19* ('the ED'), published in March 2021. We have consulted with, and this Comment letter represents the views of, the KPMG network.

We support the Board's efforts to improve its own approach to developing and drafting disclosure requirements in IFRS Standards so that entities provide more useful information to users of the financial statements.

While we welcome certain aspects of the proposals such as an introduction of disclosure objectives at the standard-level, we don't believe the proposed approach is fit for purpose to achieve the intended objective and may not be effective in addressing the 'disclosure problem'.

We believe that the 'disclosure problem' is largely behavioural, and that the emphasis of any new approach should be on empowering entities to make effective materiality judgements in relation to disclosures with a focus on the provision of information that is material to financial statements users.

It is therefore key that entities are equipped with guidance to apply materiality as a filter and be able to assess what disclosures are needed. While we acknowledge that IFRS Practice Statement 2: *Making Materiality Judgements* provides guidance on how to make materiality judgements when preparing financial statements, we believe it would be helpful if the Board provides more guidance on the application of materiality specifically to disclosures – e.g. more illustrative examples on how entities can decide when disclosure of specific information is or isn't material to users.

Our key concerns and recommendations are as follows.

The proposed approach introduces additional complexity by shifting even more judgement to entities

The proposed approach introduces another layer of judgements - i.e. in addition to the usual materiality judgements, entities would need to decide what ('non-mandatory') disclosure(s) would satisfy the disclosure objective. We believe this would introduce additional complexity into reporting and be burdensome to apply or enforce for entities, auditors and regulators alike. Considering that many entities struggle currently to apply judgement in assessing whether individual disclosures are material to the users of financial statements, the proposed introduction of another layer of judgements on an entity-by-entity basis may not provide users with the information they need, and it may also hinder comparability.

We recognise that entities need to consider materiality and apply professional judgement in evaluating what information to disclose, but the judgement as to what specific information is relevant to users of general-purpose financial statements should be (predominantly) predetermined by the Board and not left to the judgement of entities. As such, we question the split between 'mandatory' and 'non-mandatory' disclosures and believe that a single set of disclosures that are required if they are considered material to users of the financial statements would be more appropriate.

We believe that the Board, through its extensive outreach with users, is in the best position to develop a single set of disclosure requirements that are relevant to meet users' needs.

The proposed approach may be misapplied given the proposed labelling of 'mandatory' and 'non-mandatory' disclosures

While we recognise that entities should be able to exercise professional judgement to assess which disclosures to provide, we are concerned that some entities may read this literally as disclosures they 'must give' and disclosures they 'don't need to give at all'. It may lead to poor disclosures in practice – in particular, if entities choose to provide only mandatory disclosures. This may also make it difficult to enforce these 'non-mandatory' disclosures in circumstances when information is considered material, as some may interpret 'non-mandatory' as optional.

The proposed disclosure objectives are too high-level and not clearly articulated in all instances

We support the Board's proposals to include overall disclosure objectives and specific disclosure objectives at the standard-level. This is a helpful step that may provide entities with a broader context as to what information users want and how users might utilise the information. However, the proposed disclosure objectives are currently drafted for the two 'pilot standards' (IFRS 13 and IAS 19) at too high a level to assist entities meaningfully with materiality assessments. We believe that such disclosure objectives need to be clear and self-explanatory. In particular, they should clearly articulate why the information is potentially of relevance to users. The objectives should

be drafted using plain language and, to the extent possible, aligned with terminology already used elsewhere in IFRS Standards, so that the meaning is obvious.

The success of the future approach depends partly on well-articulated disclosure objectives that help entities determine what information is material to users.

The proposed approach does not strike the right balance between ‘mandatory’ and ‘non-mandatory’ disclosures

We are also concerned with the proposed categories of ‘mandatory’ and ‘non-mandatory’ disclosures. Certain disclosures that we would generally consider critical to meet the proposed disclosure objective(s) under the pilot standards in the ED have been designated as ‘non-mandatory’, despite evidence that they are considered important for users. For example, most respondents to the [IFRS 13 Post Implementation Review](#)¹ (PIR) indicated that IFRS 13 requirements to disclose valuation techniques and significant unobservable inputs for Level 3 fair value measurements are most useful. Therefore, we question why the proposed disclosures in IFRS 13.110(a)-(c) are classified as ‘non-mandatory’. Similarly, in the proposed amendments to IAS 19 disclosures on defined benefit plans, a description of the nature of the plan, a breakdown of the plan assets by category and the key actuarial assumptions are included within the ‘non-mandatory’ category (see IAS 19 paragraphs 147I(a), (h) and 147S(a) in the ED). We question how the proposed disclosure objective could be met without disclosure of such information. We would expect such information to be disclosed if it was material and hence we disagree with the proposed classification as ‘non-mandatory’.

It appears that the proposed new guidance for the Board to use when developing and drafting disclosure requirements in IFRS Standards (‘proposed Guidance’) introduces another threshold for the Board to apply in drafting disclosures, i.e. ‘essential’ information (see paragraph DG13). However, in view of the above examples, it is unclear what this threshold means and how this threshold was applied in the pilot standards (IFRS 13 and IAS 19) – in particular, to what extent feedback from users/investors was considered in designating specific disclosure requirements as ‘mandatory’ versus ‘non-mandatory’.

Our recommendation - Alternative disclosure model

Given the above concerns, we do not support the proposed approach. Instead, we suggest the Board consider an alternative approach to promote relevant and entity-specific disclosures in the financial statements. The alternative model would include the following at an individual IFRS Standard level:

- Clearly articulated overall and specific disclosure objectives.

¹ See IFRS 13 PIR, *Feedback Statement on the implementation of IFRS 13*, page 12

- A single set of disclosure requirements (as informed by the Board’s extensive outreach with various user groups to identify and/or confirm what information users of general-purpose financial statements need).
- A requirement for the entity to consider whether:
 - any required disclosures are not material and therefore do not need to be provided; and
 - any additional disclosures are needed to meet the disclosure objective(s).

The Board should refine the disclosure objectives to be more specific and focused on users’ needs – i.e. to explain clearly what information users need and why. Further outreach with users should enable the Board to develop a set of disclosure requirements that are the most decision-useful and relevant. We believe that such an approach, supported by a continued emphasis on the use of materiality judgements, would enable preparers and other stakeholders to move away from a checklist approach and lead to more effective disclosures.

It is also important to consider how changes in the methods of delivery of financial reports (e.g. electronic reports, XBRL) and other technological developments can contribute to more effective communication of information.

We have set out our detailed comments and responses to the specific questions in the ED in the appendix to this letter.

Please contact Reinhard Dotzlaw at reinhard.dotzlaw@kpmgifrg.com or Gabriela Kegalj at gabrielakegalj@kpmg.ca if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Appendix: Responses to specific questions

The proposed Guidance for developing disclosure requirements in IFRS Standards in future

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 support the Board’s proposal to include overall disclosure objectives, as well as specific disclosure objectives (Question 2) within IFRS Standards, as it would help to explain the purpose of the disclosures from a user perspective.

This is a helpful step that may provide entities, auditors and regulators with a broader context as to what information users want and how users might utilise the information. However, the proposed overall and specific disclosure objectives are currently drafted for the two pilot standards at too high a level to assist entities with materiality assessments in a meaningful way and are not clearly articulated in all instances. See our response to Question 6 that illustrates our concern with respect to the proposed overall disclosure objective in the proposed amendments to IFRS 13.

We believe that the disclosure objectives need to be clear and self-explanatory. The objectives should be drafted using plain language and, to the extent possible, aligned with terminology already used elsewhere in IFRS Standards, so that the meaning is obvious.

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?

Consistent with our response to Question 1, while we agree that specific disclosure objectives would help entities in understanding what information is useful to users of the financial statements, we are not convinced that the specific disclosure objectives as currently drafted would help entities to apply materiality judgements effectively and determine what information to disclose to meet those objectives. See our responses to Questions 7 and 9 for examples of how the proposed objectives can be clarified.

The success of the future approach depends partly on clear disclosure objectives that help entities determine what information is material to users. If the specific disclosure objectives are drafted in a clear way and articulated in plain English, then they are likely to contribute to the desired behavioural change. The understanding of the purpose of the disclosures may assist entities with materiality judgements.

Further, as stated in the cover note, it is key that entities are equipped with guidance to apply materiality as a filter and be able to assess what disclosures are needed. While we acknowledge that IFRS Practice Statement 2: *Making Materiality Judgements* provides guidance on how to make materiality judgements when preparing financial statements, we believe it would be helpful if the Board provides more guidance on the application of materiality specifically to disclosures – e.g. more illustrative examples on how entities can decide when disclosure of specific information is or isn't material to users.

Refer to *Our recommendation - Alternative disclosure model* as described in the cover note and our response to Question 3.

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 recognise the need to move away from a ‘checklist approach’ and believe that the preparation of financial statements including disclosures requires the application of professional judgement, we do not support the proposed approach.

In particular, we are concerned that the proposed approach introduces another layer of judgements - i.e. in addition to the usual materiality judgements, entities would need to decide what ('non-mandatory') disclosure(s) would satisfy the disclosure objective. We believe this would introduce additional complexity into financial reporting and be burdensome to apply or enforce for entities, auditors and regulators alike. Considering that many entities struggle currently to apply judgement in assessing whether individual disclosures are material to the users of financial statements, the proposed introduction of another layer of judgements on an entity-by-entity basis may not provide users with the information they need. The proposed model also has the potential to significantly hinder comparability given the variations in judgements that will be made by different entities.

We recognise that entities need to consider materiality and apply professional judgement in evaluating what information needs to be disclosed, but the judgement as to what specific information is relevant to users of general-purpose financial statements should be (predominantly) predetermined by the Board and not left to the judgement of entities. For general purpose financial statements, there needs to be a set of appropriate disclosures that are required (materiality dependant) to address the needs of the primary users of those financial statements. Otherwise, there is a risk that entities will only focus on certain specific users - e.g. equity analysts - rather than the wider population of users when assessing what disclosures to provide. We believe that the Board, through its extensive outreach with various user groups, is in the best position to develop a single set of disclosure requirements that are relevant to meet users' needs.

In addition, we question the proposed split between 'mandatory' and 'non-mandatory' disclosures and believe that a single set of disclosures that are required if they are considered material to users of the financial statements would be more appropriate. See our response to Question 4 for further details.

Our recommendation - Alternative disclosure model

Given the above concerns, we do not support the proposed approach. Instead, we suggest the Board consider an alternative approach to promote relevant and entity-specific disclosures in the financial statements. The alternative model would include the following at an individual IFRS Standard level:

- Clearly articulated overall and specific disclosure objectives.
- A single set of disclosure requirements (as informed by the Board's extensive outreach with various user groups to identify and/or confirm what information users of general-purpose financial statements need).
- A requirement for the entity to consider whether:
 - any required disclosures are not material and therefore do not need to be provided; and
 - any additional disclosures are needed to meet the disclosure objective(s).

The Board should refine the disclosure objectives to be more specific and focused on users’ needs – i.e. to explain clearly what information users need and why. Further outreach with users should enable the Board to develop a set of disclosure requirements that are the most decision-useful and relevant. We believe that such an approach, supported by a continued emphasis on the use of materiality judgements, would enable preparers and other stakeholders to move away from a checklist approach and lead to more effective disclosures.

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?

As noted in our response to Question 3, we do not support the proposed approach and the proposed split between ‘mandatory’ and ‘non-mandatory’ disclosures. We do not believe this is a matter of being more or less prescriptive. We believe that there should be a single set of IFRS disclosure requirements for each standard (predetermined by the Board as informed by its extensive outreach with various user groups to identify and/or confirm what information users of general-purpose financial statements need). Such disclosures would be provided when they are considered material to users of the financial statements. Refer to *Our recommendation - Alternative disclosure model* in the cover note.

Proposed labelling of ‘mandatory’ and ‘non-mandatory’ disclosures

While we recognise that entities should be able to exercise professional judgement to assess which disclosures to provide, we are concerned that some entities may read this literally as disclosures they ‘must give’ and disclosures they ‘don’t need to give at all’. It may lead to poor disclosures in practice – in particular, if entities choose to provide only mandatory disclosures. This may also make it difficult to enforce these ‘non-mandatory’ disclosures in circumstances when information is considered material, as some may interpret ‘non-mandatory’ as optional. In our experience, existing ‘non-mandatory’ disclosures (e.g., IAS 38.128 and IAS 16.79) are generally not provided and challenging to enforce.

Lack of appropriate balance between ‘mandatory’ and ‘non-mandatory’ disclosures

We are also concerned with the proposed categories of ‘mandatory’ and ‘non-mandatory’ disclosures. Certain disclosures that we would generally consider critical to meet the proposed disclosure objective(s) under the pilot standards in the ED have been designated as ‘non-mandatory’, despite evidence that they are considered important for users. For example, most respondents to the [IFRS 13 Post Implementation Review](#)² (PIR) indicated that IFRS 13 requirements to disclose valuation techniques and significant unobservable inputs for Level 3 fair value measurements are most useful. Therefore, we question why the proposed disclosures in IFRS 13.110(a)-(c) are classified as ‘non-mandatory’. Similarly, in the proposed amendments to IAS 19 disclosures on defined benefit plans, a description of the nature of the plan, a breakdown of the plan assets by category and the key actuarial assumptions are included within the ‘non-mandatory’ category (see IAS 19 paragraphs 147I(a), (h) and 147S(a)). We question how the proposed disclosure objective could be met without disclosure of such information. We would expect such information to be disclosed if it was material and hence we disagree with the proposed classification as ‘non-mandatory’.

It appears that the proposed Guidance for the Board introduces another threshold for the Board to apply in drafting disclosures, i.e. ‘essential’ information (see paragraph DG13). However, in view of the above examples, it is unclear what this threshold means and how this threshold was applied in the pilot standards – in particular, to what extent feedback from users/investors was considered in designating specific disclosure requirements as ‘mandatory’ versus ‘non-mandatory’.

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 have no other comments on the proposed Guidance.

² See IFRS 13 PIR, *Feedback Statement on the implementation of IFRS 13*, page 12

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

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?

Consistent with our response to Question 1, we believe that having overall disclosure objectives is useful. We agree that the proposed overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition is helpful to entities because it explains the purpose of the disclosures from the users’ perspective.

The proposed overall disclosure objective in paragraph 100 of the ED states that “an entity shall disclose information that enables users of financial statements to evaluate the entity’s exposure to uncertainties associated with fair value measurements”. However, ‘exposure to uncertainties associated with fair value measurements’ is not explained in the ED. For example, it is not clear whether it refers to uncertainties inherent in the fair value measurement (i.e. the objectivity of the fair value measurement), fair value measurement of items significantly affected by uncertainties during the reporting period, and/or to the impact of reasonably possible changes to inputs used in the fair value measurement. The Board should clarify the proposed objective to ensure that it is well-understood and drives appropriate disclosure.

Level of aggregation

We note that while the level of aggregation is mentioned in the current IFRS 13.92(c) after the disclosure objectives paragraph, it is not included in paragraph 101 of the ED. Given the discussion of aggregation in DG7 and BC52 of the ED, and the fact that in the IFRS 13 PIR almost all respondents considered aggregation as one of the key issues in disclosing information under IFRS 13, we suggest that the Board refers to the level of aggregation in paragraph 101 of the ED, or at least refers in paragraph 101 to paragraph B49.

Refer to our response to Question 11 for further discussion regarding a need for additional guidance on aggregation.

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

Consistent with our response to Question 1, we believe that having specific disclosure objectives is useful. We agree that the proposed specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position aim to capture detailed user information needs about assets and liabilities measured at fair value.

However, in order for the proposed specific disclosure objectives to result in the provision of information about material fair value measurements and the elimination of information about immaterial fair value measurements in financial statements, we believe that the standard itself should include some of the wording that currently appears in the draft Basis for Conclusions (see paragraphs BC75, BC79, BC81, BC85 and BC91). These paragraphs provide further insights into users’ informational needs and how these are to be addressed by the standard’s disclosure requirements. This would be helpful for entities when identifying and assessing what information is material or immaterial to users.

We also note that certain specific disclosure objectives lack clarity. For example, the proposed specific objective in paragraph 103(a) of the ED refers to disclosure of ‘other characteristics’ – it is not clear whether these are limited only to the characteristics that relate to categorisation of the asset or liability, as required to be disclosed according to paragraph 103(b), or whether it would capture other characteristics besides these.

We believe that the heading above paragraph 114 of the ED - “Reasons for changes in fair value measurements” - is misleading, as the Board’s intention is to provide a reconciliation from the opening balance to the closing balance and not to otherwise provide explanations for the factors behind the change in values of an instrument during the reporting period. The heading should be clear and fit for purpose.

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?

Mandatory disclosures

We agree that the information required to be disclosed by paragraphs 105, 109 and 116 in the ED and designated as ‘mandatory’ is essential to users of the financial statements.

However, as noted in our response to Question 4, we are concerned with the lack of appropriate balance between ‘mandatory’ and ‘non-mandatory’ disclosures.

Non-mandatory disclosures

We question why some proposed disclosures that we would consider critical to meet the proposed specific disclosure objectives for assets and liabilities measured at fair

value in the statement of financial position after initial recognition have been designated as ‘non-mandatory’ despite evidence that they are considered important for users.

In particular, we question the basis for designating the following disclosures in the proposed amendments to IFRS 13 as ‘non-mandatory’:

- IFRS 13.110(a)-(c): We note that in the IFRS 13 PIR³ respondents indicated that the most useful disclosures about Level 3 fair value measurements are disclosures about the valuation techniques used and quantitative disclosures about significant unobservable inputs.
- IFRS 13.110(d): Although cases in which the highest and best use (HBU) of a non-financial asset differs from its current use are uncommon, it is acknowledged in the current IFRS 13.BC213 that disclosure of when and why an entity uses an asset in a way that differs from its HBU is useful to users. As such, we question why the disclosure in paragraph 110(d) is proposed to be designated as ‘non-mandatory’.

Additional observations

We are concerned that the lack of reference to specific hierarchy levels under the specific disclosure objectives may lead to a dramatic increase in the volume of disclosures for Level 2 fair value measurements. To ensure relevant information is provided, we recommend adding wording in the standard itself which will explain the circumstances in which disclosures would be required for Level 2 fair value measurements (i.e. Level 2 fair value measurements for which the categorisation is close to Level 3), as described in the proposed IFRS 13.BC69-71.

The proposed paragraph 113(d) requires disclosure of interrelationships between the inputs used to meet the disclosure objective in paragraph 111 and a description of how those interrelationships magnify or mitigate the effect of using inputs that were reasonably possible at the end of the reporting period on the fair value measurements. We note that the same wording exists in IFRS 13.93(h)(i) as part of the narrative description of the sensitivity analysis and therefore it is clear that under the current IFRS 13 it is a qualitative disclosure. However, the disclosure under the proposed paragraph 113 is related to the calculation of alternative fair value measurements and therefore it is not clear whether the disclosure under paragraph 113(d) is of a quantitative nature. Furthermore, it is not clear whether these interrelationships should be considered in calculating the range of alternative fair value measurements as required by paragraph 113(b). We are concerned that under paragraph 113 such interrelationships would need to be factored into alternative fair value measurements and quantitative disclosure would need to be provided - this would significantly extend the current disclosure requirements under IFRS 13 and we question the basis for that.

³ See IFRS 13 PIR, *Feedback Statement on the implementation of IFRS 13*, page 12

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?

Consistent with our response to Question 1, we believe that having specific disclosure objectives is useful. We agree that the proposed specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position aims to capture detailed user information needs about assets and liabilities not measured at fair value but for which fair value is disclosed in the notes.

However, in order for the proposed specific disclosure objective to drive the provision of useful information in the notes, we believe certain clarifications and updates are required.

Consistent with our comment in our response to Question 7, the proposed specific disclosure objective in paragraph 118(a) of the ED refers to disclosure of ‘other characteristics’ – it is not clear whether these are limited only to the characteristics that relate to categorisation of the asset or liability, as required to be disclosed according to paragraph 118(b), or whether it would capture other characteristics besides these.

Furthermore, we believe that the proposed specific disclosure objective in paragraph 118 may be too narrow for certain entities – e.g. such as for entities that hold significant investments in investment properties and apply the cost model under IAS 40. In our experience, a description of the valuation techniques and inputs used in determining

the fair value of investment properties (as currently required under IFRS 13.97) is very useful to users. Therefore, in some cases the specific disclosure objective in paragraph 118 may be too narrow and the proposed disclosure requirements in paragraphs 120 and 121 insufficient.

Lastly, we note that the proposals introduce specific disclosure objectives 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, but the overall disclosure objective in paragraph 100 of the ED does not refer to such assets and liabilities. It is not clear if this is deliberate or an omission.

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?

Mandatory disclosures

We agree that the information required to be disclosed by paragraph 120 and designated as ‘mandatory’ is essential to users of the financial statements.

However, as noted in our response to Question 4, we are concerned with the lack of appropriate balance between ‘mandatory’ and ‘non-mandatory’ disclosures.

Non-mandatory disclosures

We question why some proposed disclosures that we would consider critical to meet the proposed 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 have been designated as ‘non-mandatory’.

For example, in relation to paragraph 121 of the ED and as noted in our response to Question 9, we are concerned over the proposed removal of the disclosure requirements currently required in IFRS 13.97 for items for which fair value is only disclosed in the notes. In our experience, such information is helpful to users.

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?

While not in the scope of the ED, we also have additional suggestions with respect to the following.

Level of aggregation

The proposed amendments to IFRS 13 do not provide additional guidance on aggregation or disaggregation.

In our response to the IFRS 13 PIR⁴ we noted that guidance on the factors to consider in determining the appropriate level of aggregation and illustrative examples would be very helpful and would likely increase consistency and the usefulness of the disclosure.

Aggregation was also noted by respondents to the IFRS 13 PIR⁵ as one of the issues to address.

We continue to believe that additional guidance on aggregation and disaggregation would be helpful. We note that in the proposed amendments to IAS 19 there is specific guidance on aggregation in paragraph 147b of the ED. Similar guidance might be useful in the context of IFRS 13.

Distinction between realised and unrealised gains and losses

We note that the proposed paragraph 116(a) in the ED would require disclosure of total gains or losses for the reporting period recognised in profit or loss that are attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period which are measured at fair value on a recurring basis and categorised in Level 3 of the fair value hierarchy. However, as noted in our response to the IFRS 13 PIR⁶ there is currently no definition of ‘realised’ and ‘unrealised’ gains or losses.

IFRS 13.BC198 states that ‘unrealised’ refers to gains and losses related to changes in the fair value of an asset or liability that is held by the entity at the reporting date.

⁴ See our Comment letter on the IFRS 13 PIR, page 7

⁵ See IFRS 13 PIR, *Feedback Statement on the implementation of IFRS 13*, pages 6 and 12-13

⁶ See our Comment letter on the IFRS 13 PIR, page 6

However, some gains or losses related to such items may be received or paid in cash and those receipts or payments may occur in a period after a gain or loss was included in profit or loss.

We also note that identifying the change in unrealised gains or losses included in profit or loss is difficult for those instruments that are subject to periodic cash settlements.

We therefore reiterate our previous recommendation that the Board defines ‘realised’ and ‘unrealised’ gains or losses.

Proposed amendments to IAS 19 *Employee Benefits* applying the proposed Guidance

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?

Consistent with our response to Question 1, we believe that having overall disclosure objectives is useful. We agree that the proposed overall disclosure objective for defined benefit plans is helpful to entities because it explains the purpose of the disclosures from the users’ perspective.

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.

As noted in our response to Question 1, we believe that having specific disclosure objectives is useful. We agree that the proposed specific disclosure objectives for defined benefit plans aim to capture detailed user information needs about defined benefit plans.

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?

Mandatory disclosures

We agree that the information required to be disclosed by paragraphs 147F, 147M and 147V of the proposed amendments to IAS 19 and designated as ‘mandatory’ is essential to users of the financial statements.

However, as noted in our response to Question 4, we are concerned with the lack of appropriate balance between ‘mandatory’ and ‘non-mandatory’ disclosures.

Non-mandatory disclosures

We question why some proposed disclosures that we would consider critical to meet the proposed specific disclosure objectives about defined benefit plans have been designated as ‘non-mandatory’.

For example, the specific disclosure objective proposed in paragraph 147Q of the ED sets out a requirement to provide information “to enable users to understand the significant actuarial assumptions used in determining the defined benefit obligation”. It is unclear how this objective could be achieved without disclosing the significant actuarial assumptions used. Similarly, it is unclear why a “description of the nature of the benefits provided by plans” is designated as ‘non-mandatory’ disclosure when the wording “nature of the benefits provided by the defined benefit plans” is included in the related disclosure objective set out in paragraph 147G.

The following are a number of additional examples of ‘non-mandatory’ disclosures which we believe, where material, would be required information to meet the proposed specific disclosure objectives:

- A breakdown of the fair value of plan assets by classes of assets that distinguish the risks and characteristics of those assets.
- The following items to provide an indication of the effect of the defined benefit plan on the entity’s future cash flows:
 - a) a description of any funding arrangements and funding policy that affect future contributions; and
 - b) the expected contributions to the plan for the next annual reporting period.
- Information about the maturity profile of the defined benefit obligation. This will include the weighted-average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.
- The following information if the entity participates in a multi-employer defined benefit plan:
 - a) a description of the funding arrangements, including the method used to determine the entity’s rate of contributions and any minimum funding requirements; and

- b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.
- The following information if the entity participates in a defined benefit plan that shares risks between entities under common control:
 - a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;
 - b) the policy for determining the contributions to be paid by the entity;
 - c) if the entity accounts for an allocation of the net defined benefit cost, all the information about the plan as a whole; and
 - d) if the entity accounts for the contribution payable for the period, the information about the plan as a whole.
- The amount of short-term employee benefits recognised as an expense.
- The amount of defined contribution plans recognised as an expense.
- The amount of other long-term employee benefits recognised as an expense.
- The amount of termination benefits recognised as an expense.

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?

Consistent with our response to Question 1, we believe that having overall disclosure objectives is useful. We agree that the proposed overall disclosure for defined contribution plans is helpful to entities because it explains the purpose of the disclosures from the users' perspective.

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?

Consistent with our response to Question 1, we believe that having overall and specific disclosure objectives is useful.

We agree that the proposed overall disclosure objectives for multi-employer plans and defined benefit plans that share risks between entities under common control are helpful to entities because they explain the purpose of the disclosures from the users' perspective.

We also agree that the proposed specific disclosure objectives for multi-employer plans and defined benefit plans that share risks between entities under common control aim to capture detailed user information needs.

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?

Consistent with our response to Question 1, we believe that having overall disclosure objectives is useful. We agree that the proposed overall disclosure objectives for other types of employee benefit plans are helpful to entities because they explain the purpose of the disclosures from the users' perspective.

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 other comments on the proposed amendments to IAS 19.