International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

7 January 2022

Dear Sir/Madam

Comment letter to ED/2021/3: Disclosure requirements in IFRS Standards – A pilot Approach

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) hereby submit our views on the exposure draft "Disclosure requirements in IFRS Standards – A Pilot Approach". Our comment letter is somewhat limited as we only provide our general and overall views on the direction of the proposal.

We welcome the IASBs work to reduce the disclosure problem and increase the effectiveness of communications in the financial statements. Overall, we believe the disclosure problem is primarily a behavioural problem, and less a problem with the disclosure requirements in the standards. Changing behaviour takes time. For preparers and auditors to arrive at the right level and content of disclosures, not only a better understanding of the objective of disclosures is needed, but even more so clarifying a correct expectation level for the users and regulators. We do believe that the recent years attention and focus on the disclosure problem has initiated a change in the right direction. Our observation is that the enforcers are supportive of a reasonable approach to disclosures rather than a pure checklist approach which has been evidenced in review processes.

The exposure draft proposes that the IASB spends more time on understanding the users' need for information in the standard setting process, and that the standards include clearly articulated disclosure objectives supplemented with an explanation of how the information provided to meet the disclosure objective will help the users of financial statements. We are highly supportive of such an approach. The IASBs research on IAS 19 *Employee Benefits* revealed that users receive insufficient information about the cashflow effects of employee benefit plans. Instead, other detailed information, like sensitivity analyses, that is less useful for users are disclosed. At the same time, companies find the cashflow information less onerous to prepare than many of the detailed disclosures that users find less useful. This illustrates that a proper understanding of users' needs, and a clear articulation of disclosure objectives, can be beneficial for both users and preparers. Having a clear understanding of users' needs and clearly articulated disclosure objectives, is important regardless of whether the standards include a list of required disclosure as today, or only include a list of non-mandatory items of information as proposed in the new guidance.

As we see it, the exposure draft poses a fundamental change from the existing guidance. Under existing guidance there is a presumption that the users' need for information is met if a list of disclosures is met. An entity is not required to fulfil a specific disclosure requirement if the information resulting from that disclosure is not material. Additional information is required if compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance (IAS 1.17 (c)). Under the new guidance, the entities will be required to comply with overall and specific disclosure objectives, supported by a non-mandatory list of items of information to consider.

In theory, the top-down approach, starting with the users' need for information, seems more efficient and appropriate than the checklist approach. Some preparers find it more onerous to prepare evidence that a disclosure requirement is immaterial and therefore should be omitted, than providing the disclosure, thereby including all the information in the checklist. Focusing on identifying the material disclosures that should be included, rather than arguing why specific disclosure requirements are immaterial, seems a more effective and efficient way to fulfil the overall objective to meet users' needs for information. Properly applied, we do believe this approach could help entities, auditors and regulators to better understand investors needs for information, avoid using the disclosure requirements as a checklist and eliminate immaterial disclosures.

However, this approach will require more judgement, and we are concerned that the approach will be difficult to apply, especially for smaller, less resourced and/or less sophisticated entities. The field test is essential to evaluate if this new approach will work in practice. We emphasise that it is important that also smaller entities with limited resources participate in the field test.

While the new approach may reduce immaterial disclosures, we are not convinced that the new approach will solve the problem of "too little relevant information". The testing of the new approach on IFRS 13 is illustrative in this regard. Investors reported that they receive information about fair value measurements that are *not* material to the financial statements, but at the same time they receive limited information about the fair value measurements that *are* material. In our experience, detailed and entity specific information is often lacking because producers consider this type of information to be too sensitive, and not because the information is costly to prepare.

On the other hand, we are concerned that there will be a lower threshold for auditors and regulators to require additional information with reference to the disclosure objectives of specific IFRSs under the new approach, than requiring additional information with reference to IAS 1 paragraph 17, and that the new approach may require entities to disclose detailed information that is sensitive and/or costly to prepare. For example, the proposed overall and specific disclosure objective of IFRS 13 is quite wide and it is challenging to see how an entity can avoid giving disclosure that are costly to prepare because it is detailed and/or sensitive if users state the information could be useful.

In our view, the disclosure requirements should strike a balance between cost for the producer and the benefit for the user. As we see it, it is the IASB's role as a standard setter to do this cost-benefit analysis when determining the appropriate disclosure requirements. We believe it will be more challenging to incorporate the cost-benefit constraint into a disclosure objective, than in a list of required disclosures (as today).

There is a trade-off between the objective of providing entity specific information and comparable information. We acknowledge that requiring standardised and comparable information, is of little value if the information is not material. However, we are of the opinion that there should be a minimum list of disclosure as we believe there is some information that generally will be relevant for most users.

For required information that should be given in a tabular format, we also think it should be considered whether to require a standardised table format. An example is the disclosure of changes in liabilities arising from financing activities in accordance with IAS 7.44A-E. For this disclosure requirement a standardised format would increase comparability and readability without being more difficult or costly to prepare for the entity.

If the new approach is implemented, we would encourage the IASB to carefully consider comparability when determining which "items of information" that should be required, and whether that information should be given in a standardised format.

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Please contact us if you would like to discuss any of our above comments.

Yours faithfully,

Bjørn Einar Strandberg

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS