17 January 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Via email: commentletters@ifrs.org

Dear Sir/Madam,

Re: IFRS Standards – Disclosure Requirements in IFRS Standards – A Pilot Approach – Proposed Amendments to IFRS 13 and IAS 19 (ED/2021/3)

The Corporate Reporting Users' Forum (CRUF) is delighted to respond to the IASB's request for comment on this Exposure Draft (ED).

The CRUF was established in 2005 and we have been holding regular meetings since. The CRUF have prepared this comment letter based on discussions in CRUF meetings. As always, we do not seek to reach a consensus within the CRUF but to reflect a broad spectrum of users' views. We have highlighted any contrasting views in our response. Our comments are based on our professional experience as users of corporate reporting.

Overall comments

We note the history of the disclosure project and the need for change as set out in paragraphs BC1-11 of the Basis for Conclusions document. We have submitted two previous responses to this initiative, the first on related amendments to IAS 1 issued in December 2014 for accounting periods beginning on or after 1st January 2016 and the second on related amendments to IAS 1 and IFRS Practice Statement 2 on accounting policies issued in February 2021. We continue to agree with the disclosure problem set out in the Introduction to the ED and repeated in paragraph BC1 in the Basis for Conclusions document that financial statements contain:

- Not enough relevant information
- Too much irrelevant information, and
- Ineffective communication of the information provided.

We note the causes of and possible ways to address the disclosure problem prompted by the March 2017 discussion paper on "Disclosure Initiative – Principles of Disclosure" as summarised under the need for change in paragraphs BC5 – 11 of the Basis for Conclusions document.

The majority of CRUF participants agree that the main cause of the problem is the 'checklist' approach where preparers of financial statements, auditors and regulators focus their efforts on complying with the specific disclosure requirements in individual IFRS Standards and often do not spend time applying the overarching concept of materiality to disclosures. There is also some agreement with the suggestion that the Board could help solve the disclosure problem by improving its approach to developing and drafting disclosure objectives and requirements in IFRS Standards.

However, there are some CRUF participants who do not agree with disclosures being subject to an objectives-based approach. In their view, the disclosure requirements of current IFRS are information that was considered necessary when the respective accounting standards were developed. If there is a need to revise the disclosure items in light of changes in the economic environment since the standards were set, then the IASB's post-implementation reviews should address which items should be deleted or added. Those participants are also concerned that some necessary information will not be disclosed. In their view, this would be more detrimental for investors than the possibility that material information is obscured by numerous immaterial disclosures. They believe that investors (who will have diverse information needs) should be able to decide for themselves which disclosures are useful and which are not.

In response to this disagreement, the majority of CRUF participants would counter that any proper application of materiality should result in the disclosure requirements of IFRS being provided only if they are material. In our review and analysis of the annual reports and audited financial statements of entities, we have generally felt that preparers do not do a good job of deciding what is material and prioritising the reporting of only material information. As primary users of financial statements, we support anything that tries to address the resulting disclosure problem. Some main reasons for this are there is never enough time to sift through the reams of immaterial information that preparers supply for the material items; and preparers are being paid enough to risk making judgements about material items and having the courage to report only these and not hide behind compliance checklists.

Because not all CRUF participants are very familiar with IFRS 13 and IAS 19, we would find it helpful to comment further if the IASB held a consultation follow up request for input from us on the IFRS 13 and IAS 19 disclosure proposals. We suggest this includes examples with the disclosure problem *before* the proposals are implemented with comparisons to how these may change *after* the proposals are implemented. The illustrative examples in the ED are too generic to be meaningful in our view. We would find our suggestion of an IASB request for input helpful as it would enable us to see practical examples rather than just thinking about the proposals theoretically.

Having said this, we are supportive of the proposals – the proposed guidance, the proposed amendments to IFRS 13 and IAS 19 and the proposed consequential amendments to IAS 34 "Interim Financial Reporting" and IFRIC 17 "Distributions of Non-Cash Assets to Owners". We are happy with the definition of materiality in IAS 1 - Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. In our opinion, anything that gets preparers of financial statements, through making appropriate materiality judgements, to provide relevant, not irrelevant, and reasonably understandable information is good.

We would be pleased to be involved in and help with any future reviews of other IFRS and IAS to develop their disclosure requirements under the proposed guidance.

In the context of the above overall comments, we answer your 18 consultation questions as follows.

CRUF's detailed responses to the consultation questions

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?

The majority of CRUF participants agree that the Board should use overall disclosure objectives within IFRS Standards in future because this should focus preparers on relevant user information needs rather than a checklist. In practice, it will be interesting to see how preparers try to find out from their users, like us, what relevant (material) information will satisfy those overall disclosure objectives. They also agree that overall disclosure objectives will help entities, auditors and regulators determine whether information provided in notes to financial statements meets overall user information needs because it should focus their attention on the objectives and not any checklist of requirements.

However, there are some CRUF participants who do not agree with disclosures being subject to an objectives-based approach. In their view, the disclosure requirements of current IFRS are information that was considered necessary when the respective accounting standards were developed. If there is a need to revise the disclosure items in light of changes in the economic environment since the standards were set, then the IASB's post-implementation reviews should address which items should be deleted or added. Those participants are also concerned that some necessary information will not be disclosed. In their view, this would be more detrimental for investors than the possibility that material information is obscured by numerous immaterial disclosures. They believe that investors (who will have diverse information needs) should be able to decide for themselves which disclosures are useful and which are not.

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?

We agree generally that specific disclosure objectives should help entities apply judgements effectively when preparing financial statements to resolve the disclosure problem. However, entities will not be able to do this on their own or in isolation as they will need to obtain feedback from their users and auditors on what they think is relevant or not relevant information and what they think users would like to be able to do with relevant information. We recognise that IFRS cannot require entities and auditors to engage with users on disclosures but agree with the statement in the introduction to the ED that the disclosure problem is multi-faceted and that addressing it will require the input of all stakeholders. We would hope that the introduction of overall disclosure objectives, specific disclosure objectives and the identification of items of information to meet specific disclosure objectives in IFRS will prompt entities and their auditors to engage with users appropriately.

We also agree generally that specific disclosure objectives should provide a basis for auditors and regulators to determine whether an entity has applied judgements effectively. However, they will also need to understand how entities have applied materiality in making those judgements. If entities continue to provide obfuscating information checklists and immaterial irrelevant information, it follows that auditors and regulators will have to conclude that the IFRS disclosure requirements are not being met.

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.

We agree with this approach for the reasons already given above. We have no alternative approaches to suggest. We agree that this approach should discourage the checklist approach and help address the disclosure problem but would like to see it in practice before deciding whether or not it is effective on both these counts. We believe it should be enforceable as auditors and regulators will be able to determine that the standards have not been met if they are confronted with any checklist and/or immaterial and irrelevant disclosures.

We believe the costs of this approach will not outweigh the benefits to users of any resolution of the disclosure problem. In any event better and more relevant disclosures will be worth any extra cost.

It is worth noting that a minority of CRUF participants prefer disclosure rules that effectively act as a practical checklist to ensure that there are no omissions in disclosures. Those participants suggest that if the proposed approach is to be adopted, that the mandatory disclosure requirements should be increased, for example, in the assumptions used in retirement benefit accounting. However, the majority of CRUF participants disagree with this approach as it negates the need for judgement and could result in necessary information, because it is material, being missed because it is not in the disclosure rules. It will also result in irrelevant information that is not material but included in in the mandatory disclosure requirements being included. These participants prefer a principles based approach to a rules based approach.

There are some CRUF participants who believe that a lot of preparers will not understand totally the needs of investors due to their diversity. As a result, they see preparers making very subjective decisions on disclosures that will impair consistency and comparability. For them, the only way to combat this will be to have a minimum list of prescriptive disclosures in IFRSs. However, having such a prescriptive list will potentially maintain the checklist approach with its disclosure problem. The practical resolution appears to be, as you are suggesting, that IFRS have a list of information requirements that may meet the overall and specific objectives without being mandatory unless they are material for an entity.

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?

Out of the three options considered, we agree this was the best. However, we are not sure it makes clear that entities need to apply judgement to determine how to meet the specific disclosure objective. We think it would be clearer if an element of judgement was included in the language; for example, "while not mandatory, the following information, if considered material and therefore relevant to an entity, may enable an entity to meet the disclosure objective". This may also provide a practical compromise between a prescriptive minimum list of disclosures for consistency and comparability and avoiding a checklist approach that would result in the disclosure problem.

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 further comments.

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?

We agree that the proposed objective would result in the provision of useful information about assets and liabilities measured at fair value in companies' balance sheets.

However, we do not have a sufficient detailed knowledge of IFRS Standards to know if the proposed objective would resolve completely the disclosure problem of IFRS 13, in particular the proper application of materiality.

We also have a concern about sensitivity analysis disclosures. These should adequately inform users in an understandable way of the fair value range of any relevant asset or liability, the fair value selected within this range and why. Our experience of sensitivity analyses is that they never really do this. We would hope that the proposals in the ED arising from the guidance proposals being applied to IFRS 13 do result in the provision of useful rather than irrelevant information.

In the context of IFRS 13, some CRUF participants have a concern with non financial corporates holding complex financial instruments and there being insufficient information about how management have decided whether they are Level 2 or Level 3 items. They see a potential solution being either sufficient guidance in the IFRS on separating Level 2 and Level 3 instruments or the IFRS requiring the same mandatory reconciliation disclosure requirements for Level 3 instruments applying to Level 2 instruments.

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.

Yes we agree, subject to the concerns expressed for Q6 above.

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?

Yes, we agree.

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?

Yes, we agree.

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?

Yes, we agree.

However, we have a concern that, for any asset or liability not measured at fair value and for which fair value is **not** disclosed in the notes to the financial statements, paragraphs 118 and 120 would be deemed not applicable and we would not necessarily understand why. We suggest where this situation arises for any asset or liability deemed material, there should be an explanation as to why no fair value measurement information is given.

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?

We have no further comments.

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?

Our limited experience of disclosures for defined benefit plans is that they are not bad but often tend to include irrelevant or unhelpful information. Also, the closer a financial statement year end is to a related actuarial review the better as any uncertainties in respect of that review increase over time until the next three year review. As a result, the proposed objective should result in the provision of useful information, especially in relation to the relevant uncertainties of defined benefit plans. We do not have sufficient knowledge to suggest any alternative overall disclosure objective.

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.

In the same context as our answer to Q12, we agree with all the proposed specific disclosure objectives and have no other comments.

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?

We have no reasons for disagreeing with these proposals.

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?

We agree with the Board's reasons set out in paragraphs BC156 – 158 of the Basis for Conclusions and therefore with the proposed overall disclosure objective for defined contribution plans.

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?

We do not have sufficient experience of these to comment.

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?

We do not have sufficient experience of these to comment.

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 further comments.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations depending on their area of interest or expertise. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. Also, it would not be correct to assume that nonparticipants agree with the initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally and provided by participants in drafting the response. Differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer or other organisations they are a member of or associated with. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective employer or other organisations. The participants in the CRUF that have specifically endorsed this response are listed below.

Signatures

Charles Henderson

Kazim Razvi

Peter Parry

Marion Scherzinger

Sue Milton

Koei Otaki, CPA, CMA

Yosuke Mitsusada, Ph D, CFA

Chie Mitsui