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

Re: Exposure Draft ED/2021/3 - Disclosure requirements in IFRS Standards – A Pilot Approach

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2021/3 – Disclosure requirements in IFRS Standards – A Pilot Approach ('the ED').

We welcome the IASB's research project on Disclosure requirements in IFRS standards with the aim of developing guidance for improving information disclosed in financial statements. We consider that such guidance would be helpful, especially given that the level of information disclosed by companies varies significantly which has impacted upon the comparability of information between companies.

However, we consider that the following points need to be reconsidered by the Board.

1) Use of overall and specific disclosure objectives.

We welcome the IASB's proposal to bring clarity to disclosure objectives under the current IFRS framework. However, we consider that the specific objectives are too broad, open to interpretation and will inherently lead to a divergence in the comparability of disclosures provided by entities under the proposed ED framework.

We consider that the mandated and recommended disclosure requirements in the current IFRS standards remain appropriate and fit for purpose.

2) Application of increased judgment.

We consider that by allowing entities to exercise increased judgment in determining what information they are required to disclose will result in both additional time and costs incurred by entities, external auditors and regulators. Whilst listed and larger entities may be able to absorb the additional time and costs, the proposed framework under the ED is not considered suitable or sustainable for other entities in the longer term (with smaller entities being significantly disadvantaged).

3) Application of the proposed disclosure requirement change to IFRS 13 and IAS 19.

The two standards (IFRS 13 and IAS 19) that the Board has chosen to consider as part of the ED to test the guidance for developing and drafting disclosures are not wholly representative of those IFRS standards in practice that are considered fundamental to the 'disclosure problem'.

Whilst both of these standards have extensive disclosure requirements and therefore could be considered useful in testing the guidance, we consider that the IASB should also consider the proposed disclosure requirements against IFRS 7 Financial Instruments: Disclosures. This standard is applicable to all IFRS reporters and shares similar disclosure objectives with IFRS 13 (unlike IAS 19 whereby an entity may not have a defined benefit plan). Additionally, as the standard requires entities to apply judgment in assessing what information is required to be disclosed, this has led in practice to either too much irrelevant information or not enough relevant information being disclosed in the notes to the financial statements.

Furthermore, entities, external auditors and regulators have recognised that the disclosure requirements in IFRS 7 have led to financial instrument notes significantly increasing in size and complexity (and therefore contributing to the 'disclosure problem').

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are detailed hereafter.

We would be pleased to respond to any questions the Board of its staff may have about any of our response. If you have any questions or comments please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon

Global Leader, Quality & Risk

RSM International

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 agree that the Board should use overall disclosure objectives when developing future IFRS standards to provide context and clarity to entities, auditors and regulators on what information needs to be disclosed and communicated. However, we disagree with not having a minimal level of mandated disclosures for entities to apply which in practice would negate the need for some judgments and would also allow greater consistency in disclosures across entities.

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 judgments 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 judgments effectively when preparing their financial statements? Why or why not?

We disagree. Whilst we consider that specific disclosure objectives requiring disclosure of all material information are fundamental to a user's understanding, in our view, the proposed amendments to IFRS 13 and IAS 19 are too broad and high-level to eliminate irrelevant information being disclosed or to enable information to be communicated more effectively. We also believe specific disclosure objectives will lead to much more judgment and more judgment has a consequential time and cost for entities, auditors and regulators. We therefore consider that some level of minimal disclosures in IFRS standards should be maintained.

In practice, unless the disclosure requirements in IFRS standards are clear, concise and prescriptive, the level of information given by entities will continue to diverge.

Additionally, if the proposed approach is followed it would be necessary to consider the disclosure of critical accounting judgments. IAS1 paragraph 122 requires an entity to disclose those critical accounting judgments that management has applied in preparing the financial statements. If the IASB's intention is to provide auditors and regulators with a basis to evaluate whether management's judgments have been applied effectively when preparing financial statements, the specific disclosure objectives should mandate entities to clearly disclose those judgments applied in the notes to the financial statements.

Question 3 – Increased application of judgment

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 judgment to determine the information to disclose in its circumstances.

We agree with the Board's proposals, subject to there being a minimal level of mandated disclosure.

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 judgment, additional audit costs, costs for users in analysing information, or changes for electronic reporting.

We disagree. Under the existing disclosure requirements in IFRS standards, it is clear what disclosures are required to be given in entities' financial statements. As a result, entities are able to plan in advance of their reporting date what financial information is needed to both collate these disclosures and ensure they are complete, including ensuring that financial systems are configured to be able to capture the financial information on a timely basis. This is important where entities need to be able to produce their financial statements in a short period of time after the year end for regulatory purposes whilst also ensuring that the disclosures are complete and accurate. Therefore we consider in practice it will be unlikely that this approach will discourage the use of disclosure requirements in IFRS Standards like a checklist.

The significant judgments applied by management in preparing financial statements are usually finalised whilst preparing the financial statements shortly after the reporting period end. If an increase in the application of judgment is required by management in the finalisation of disclosures and therefore a corresponding challenge by auditors on whether these are complete, there will inherently be additional time and costs incurred which are likely to recur on an ongoing basis. Whilst listed entities may have the financial resources to bear these additional costs, smaller entities may not.

Furthermore, additional risks could arise in the financial statements which may not be identified if management are required to spend a disproportionate amount of time in finalising disclosures based on judgment.

Question 4 – Describing items of information to promote the use of judgment

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 judgment to determine how to meet the specific disclosure objective? If not, what alternative language would you suggest and why?

We agree that the proposed language makes it clear that entities need to apply judgment to determine how to meet the specific disclosure objective. However, in practise, entities may apply the proposed language as a reason for not disclosing the non-mandatory financial information as set out in the draft ED, especially if the overall cost of compliance increases.

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).

BC194 –

Whilst we appreciate the intentions of the IASB, disclosure requirements that are objective-based and require the application of judgment will inherently be open to interpretation. <u>Unless compliance with a minimal level of disclosure is mandated for all entities who report under IFRS</u>, there will be a divergence of financial information disclosed by entities which will impact upon the comparability of financial statements between entities and therefore impact upon the needs of users.

The existing disclosure requirements in IFRS standards provides a clear framework for compliance and whilst these are akin to a checklist, are generally well understood by entities, are not a cost burden on entities to apply and in practice do enable users to compare financial statements between entities.

By way of an example, the disclosure requirements in IAS 36 for goodwill prescribes entities disclose the reasons for impairment together with the key assumptions used in calculating either VIU or FVLCD. Due to the impact of COVID-19, many entities have recently recognised material impairments in their financial statements and the existing disclosure requirements have enabled users to be able to assess the consequential impact of COVID-19 when considering the future cashflows of the entity.

Under the ED proposals, there is a risk that where certain disclosure requirements become optional, for example the provision of quantitative or narrative information about the significant inputs/assumptions used in the cashflows (akin to paragraph 110c of the Draft Amendments to IFRS 13 Fair Value Measurement.) financial statements will become less comparable to users.

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 that meets the overall user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition.

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.

In principle, we agree with parts a) & b), however we consider that it would be helpful to include 'material' within the definition of the draft specific disclosure objectives.

The existing requirements of IAS 1 paragraph 125 require entities to provide estimation sensitivities where any reasonable changes to significant assumptions at the reporting date would give rise to a material change in the valuation of assets or liabilities. In our view, the proposed specific objective on disclosing alternative fair value measurements which were reasonably possible at the end of the reporting period would lead to users questioning management's judgment in determining the fair value to include in the financial statements, especially if there is a significant range between the alternative fair values disclosed. Furthermore, we also consider that the inherent costs of calculating this information together with the associated cost of audit would outweigh the benefits.

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?

We agree that entities should be required to disclose the proposed items of information in paragraphs 109 and 116 of the [Draft] amendments to IFRS 13.

We disagree with the proposed items of information that are not mandatory but may enable entitles to meet each specific disclosure objective. By way of example, under IFRS 13 paragraph 91, the valuation techniques and inputs used to develop fair value measurements are required to be disclosed, however, under paragraph 110 of the [Draft] amendments to IFRS 13, these disclosures would now become optional. We consider these disclosures are useful in enabling users to understand the basis of the fair values disclosed and therefore recommend that the existing mandated disclosures in IFRS 13 are retained.

Question 9 – 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.

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?

We agree with the 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.

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?

We agree. Entities should be required to disclose the proposed items of information in paragraph 120 and the proposed items of information that are not mandatory but may enable entities to meet the specific disclosure objective.

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?

The proposed amendments to IFRS 13 require entities to apply judgment in determining which fair value measurements are material to users of financial statements (BC215). There is a risk that entities may apply a strict materiality threshold in making this assessment and disregard other salient factors such as the nature of the balance. For example, an entity may have transacted into a forward contract with a material notional amount near the financial reporting date, for which the associated fair value is immaterial. Under the proposed amendments to IFRS 13, an entity may choose to not make any disclosures, however, users may consider the nature/characteristics of the assets/liabilities to be relevant and helpful in making an assessment of the future profitability and/or cash flows of the entity.

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?

We agree that the proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans. However, we note that the overall disclosure objective proposed is replicated in the existing requirements in IAS 19 (paragraph 135 a - c).

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.

We disagree. Under the proposed specific disclosures (147L), an entity would not be required to disclosure certain information on the entity's future cash flows, such as a description of funding agreements or policies that affect expected future contributions to meet the defined benefit obligations recognised at the end of the reporting period, quantitative information about expected future contributions and information about the expected pattern or rate of expected future contributions.

Furthermore, under the proposed specific disclosures (147S), an entity would not be required to disclosure the significant demographic and financial actuarial assumptions used and how measurement uncertainty has affected measurement of the defined benefit obligation. These are currently mandatory disclosures under IAS 19 paragraph 147.

We consider that these are fundamental disclosures which allow a user of the financial statements to make an assessment of how much cash will be needed to settle the future defined benefit obligations which otherwise could be used by the entity elsewhere. Under the proposal, there is a risk that in making these disclosures optional, entities will choose not to disclose.

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 agree that entities should be required to disclose the proposed items of information in paragraphs 147F, 147M and 147V.

We disagree with the proposed items of information that are not mandatory on the same basis as our response in Question 13. We consider that the existing disclosure requirements in IAS 19 provide users with sufficient information on the risks associated with defined benefit plans and their impact upon an entity's financial statements and also allows comparability between entities. We recommend that the existing disclosure requirements, where mandated in IAS 19 are maintained.

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 that this proposed objective would result in the provision of useful information that meets the overall user information needs about 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 agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans. However, we note that the overall disclosure objective proposed is replicated in the existing requirements in IAS 19 (paragraphs 148 and 149).

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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 agree. Currently IAS 19 paragraphs 25 and 158 do not require disclosures about short-term and other long-term employee benefits and therefore we consider that these proposals would result in the provision of useful information that meets the overall user information needs about these plans.

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 consider that as noted in our responses to Questions 13 and 14, the current disclosure requirements in IAS 19 provide clear guidance and an appropriate framework to enable entities to articulate the current financial position at the reporting date and ongoing implications of operating a defined benefit pension plan on the entity. Since the implementation of IAS 19, entities have standardised their disclosures in this area such that they are now broadly comparable across entities.

We do note that in general the employee benefits disclosures have increased in content and therefore inherently the risk of irrelevant information being disclosed has increased. We therefore recommend that the Board considers whether further improvements can be made in conjunction with other projects, such as the Exposure Draft on Management Commentary (i.e. allowing the narrative reporting on defined pension plans to be incorporated elsewhere in the Annual Report).

The proposed disclosure requirements in IAS 19, specifically in relation to defined benefit pension plans will only be applicable to those entities with defined benefit schemes. We therefore consider that the IASB should also test their guidance on a further standard, *IFRS 7 Financial Instruments: Disclosures* which is applicable to <u>all IFRS reporters</u>.

This standard shares similar disclosure objectives with IFRS 13. However, as IFRS 7 requires entities to apply judgment in assessing what information is required to be disclosed, this has led in practice to either too much irrelevant information or not enough relevant information being disclosed in the notes to the financial statements.

Furthermore, entities, external auditors and regulators have recognised that the disclosure requirements in IFRS 7 have contributed towards financial instrument notes significantly increasing in size and complexity. Therefore, we consider this standard would be more appropriate for the IASB to test their guidance against (in addition to IFRS 13 and IAS 19).

We have no other comments on the ED.

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