

International Accounting Standards Board
IFRS Foundation
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United Kingdom

8 December 2021

Dear Board members and technical staff,

Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*

I am writing to comment on 3 aspects of this exposure draft. My main comment responds to your question 5. To illustrate some points in that response, I also respond to your questions 14 and 15. I am not commenting on any other aspects of this exposure draft.

Response to question 5— Other comments on the proposed Guidance

Disclosure requirements in IFRS Standards are distributed throughout almost all of the standards. In my view, all disclosure requirements should be consolidated into one location in one standard. This would have the following benefits:

1. The Board would find it easier to develop effective and proportionate disclosure requirements as part of a single, cohesive package. The current approach sprinkles requirements as isolated fragments throughout dozens of standards. That current approach leads inevitably to the staff drafting (and the Board approving) long shopping lists of requirements to disclose all information a reader might conceivably want to know about a topic if that topic were the only important thing reflected in the financial statements. In my response to question 15, I discuss a live example of the pitfalls of the current approach.
2. Preparers would see a cohesive package of disclosure requirements, not the seemingly random arrangement they see today. This would make it easier for preparers to make sensible and appropriate judgements in deciding which information is material in their particular circumstances.
3. The Board and its staff, and preparers and auditors, would no longer need to waste time worrying unnecessarily about overlaps and duplications between disclosure requirements in different Standards.
In my response to question 14, I discuss a proposal in the exposure draft that would make the overall package of disclosure requirements even more fragmented and disorganised.
4. A single consolidated set of disclosure requirements could act as a checklist. At the moment, the disclosure requirements are too fragmented and lengthy and it is not feasible to use them as a checklist directly. Preparers must either acquire a checklist from other sources or run the risk of overlooking information that may be material to users. I comment more on checklists below.

Checklists

Over the last few years, some commentators have criticised the unthinking use of disclosure checklists in a way that may inhibit sensible and appropriate judgements about materiality. Nevertheless, I must stress that checklists are an essential support in making difficult judgements in complex situations. Used properly, checklists enhance good judgement, they do not diminish it. No-one would want to be flown by a pilot who does not use checklists or be operated on by a surgeon who does not use checklists. Not using a disclosure checklist leads inevitably to disclosure failures. Although those failures are not life-threatening, they deprive primary users of information they need.

The Board will enhance the quality of disclosure by drafting its disclosure requirements in a way that feeds as directly as possible into disclosure checklists. Consolidating the disclosure requirements into a single place would be a good start.

Costs and benefits of consolidating disclosure requirements

A project to consolidate all the disclosure requirements into a single standard might cause some significant costs for stakeholders and for the Board itself:

1. The exposure draft of the proposed consolidated disclosure requirements would be a lengthy document, and there would be consequential amendments—mainly deletions—to virtually every other standard. To develop high quality responses, respondents might need to commit significant resources.
2. The Board would need to commit resources to the consolidation. This exercise could not be just a direct cut and paste of existing requirements into the new location. The text would need to be shaped into a cohesive whole. For example:
 - a. The Board would need to remove redundancies and duplication, and decide what to do if existing requirements conflict with each other.
 - b. The consolidation exercise would undoubtedly uncover unexplained differences between different sets of disclosure requirements. The Board would need to decide whether it should just carry those differences forward into the new location or instead attempt to resolve or justify them.
 - c. Some standards—for example, IFRS 7 *Financial Instruments: Disclosures*, IFRS 8 *Operating Segments* and IAS 33 *Earnings per Share*—are largely about disclosure. The Board would need to decide whether to keep some of the underlying explanations within those standards (which might be cumbersome) or consolidate them all into the new location (which might create an imbalance there).

Nevertheless, in my view, the benefits of consolidating the disclosure requirements into one place would be significant, and would significantly outweigh the costs mentioned above.

Response to question 14—Information to meet the specific disclosure objectives for defined benefit plans

I disagree with paragraph 147F(d) of the draft amendments to IAS 19. It proposes a specific disclosure objective about income taxes arising from defined benefit plans. This proposal would require an entity to disclose the deferred tax asset or liability arising from the defined benefit plans

(or provide a cross-reference to where that information is disclosed elsewhere in the financial statements).

This proposal is a perfect illustration of the fragmentation caused by dealing with disclosure topics on a piecemeal basis throughout the standards. Paragraph 81(g) of IAS 12 *Income Taxes* already requires entities to disclose the amount of deferred tax asset and deferred tax liability for each type of temporary difference. Perhaps the Board believes this requirement is not already sufficient to result in disclosure of the amount targeted by draft paragraph 147F(d). If so, it would be more appropriate to amend IAS 12 than to introduce disclosure requirements about income taxes in a standard about employee benefits. If the disclosure requirements were consolidated in one place, the Board would be less likely to propose an additional disclosure requirement constructed in such a fragmented way.

Response to question 15—Overall disclosure objective for defined contribution plans

I disagree with the proposed disclosure objective for defined contribution plans. Paragraph 54A of the draft amendments to IAS 19 proposes an overall disclosure objective that requires an entity to disclose information that enables users of financial statements to understand the effect of defined contribution plans on the entity's financial performance and cash flows.

There should be no disclosure objective at all for defined contribution plans, as defined by IAS 19. A contribution to a defined contribution plan is, in essence a cash payment made to a third party on behalf of the employee. Once the contribution is made, the employer bears no further risk. Users of financial statements certainly need information about salary expense, but do not need that expense to be split into a component that results in cash payments directly to employees and a component that results in cash payments via a defined contribution plan. That distinction cannot possibly affect decisions by the primary users of financial statements. Gathering the information for the distinction is probably not particularly costly, but no cost at all is justified if the information has no value.

The requirement to disclose defined contribution pension expense is not new. It is easy to see how that requirement arose. If the only pension plans were defined contribution plans, no-one would ever have written an accounting standard about them and no-one would ever have written a disclosure requirement either. But an accounting standard was needed for defined benefit plans. So standard setters wrote standards discussing the distinction between defined benefit plans and defined contribution plans. For ease of explanation, those standards typically then prescribe the accounting for both types of plan—even though nobody needs anyone to tell them how to account for defined contribution plans. Those standards then generally fall into the trap of requiring disclosure of the expense for defined contribution plans—even though that information cannot possibly affect users' decisions.

In my view, the Board would be less likely to fall into the trap of requiring disclosure of defined contribution pension expense if all the disclosure requirements were consolidated in one place. In developing and revising disclosure requirements, the Board would find it easier to focus on how particular disclosures contribute to the overall disclosure package. The Board would be less likely to think that, merely because a standard describes the accounting treatment for an item (in this case, the only viable treatment), it must automatically follow that users need information about that item.

Your faithfully

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