IASB
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

7 January 2022

Dear Sir or Madam,

RE: Exposure Draft | Disclosure Requirements in IFRS Standards—A Pilot Approach

We are responding to your invitation to comment on the Exposure Draft, Disclosure Requirements in IFRS Standards—A Pilot Approach, published March 2021, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft ('ED'). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the Board's objective to provide users of the financial statements with more decision-useful information. However, we think that the proposals in the ED will not achieve this objective and are not supportive of the proposals in their current format. We explain below the reasons for our reservations.

Proposed format as per the Exposure Draft

The disclosure objectives included in the ED (DG5 - DG10) are helpful in making judgements about what should be disclosed. However, we believe that these objectives will not achieve consistent application across all standards without the provision of additional comprehensive requirements in each standard. Although some specific requirements are proposed for the standards in the ED, we believe that the 'use of less prescriptive language when referring to items of information to meet specific disclosure objectives' (as referred to in paragraph DG2, question 3 and question 4 of the ED), is not helpful. The proposed approach may result in inconsistent application and lack of comparability.

We believe that without a requirement to disclose the 'may' related disclosure items in the ED, there is likely to be a deterioration in the quality of the disclosures.

We also consider that the ED would widen the gap between what management perceives relevant versus the views of users given the:

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 4652

PricewaterhouseCoopers International Limited is registered in England number 3590073.
Registered Office: 1 Embankment Place, London WC2N 6RH.

- Increased level of judgment with the overall disclosure objectives; and
- Reduction of the number of mandatory disclosure requirements.

We believe that the fundamental principle when determining relevance is to identify what is material to the users of the financial statements. A disclosure standard should therefore consider:

- Providing disclosures that are commensurate with the level of risk to the entity's operations (including the industry or environment in which the entity operates), cash flows and or net assets of the entity, such that an omission or misstatement could misrepresent the financial performance or position. In our proposed approach (as detailed below), all disclosures would be mandatory, unless they are not considered material to the users of the financial statements.
- Having regard for information through 'the eyes of management', including, but not limited to the appropriateness of disaggregation. This may be particularly important where additional information or disaggregation would be helpful to an understanding of the financial statements, and that information is not captured by the mandatory disclosures. We think the concepts and application of aggregation and disaggregation could be further refined in the Primary Financial Statements project.
- Providing disclosures about the assumptions made in the current period, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material change to the current period. This is different from the existing requirement under IAS 1, paragraph 122 and 125, which only consider material adjustments to the carrying amount within the next financial year. For example,
    - Judgements impacting IFRS 13 disclosures on what is significant in the context of unobservable inputs; and
    - Judgements around the discount rate that are used in IAS 19 disclosures.

Taxonomy

We also have concerns with how the requirements of the ED will interact when using the IFRS Taxonomy. With more disclosures being optional or determined by the preparer, it is not clear how the Board will provide guidance on "tagging" such disclosures. Following our suggested approach (below), including more standardised required disclosures, preparers and investors would benefit from the power of XBRL.

Our proposed approach

In our view, the current set of disclosure requirements in IFRS i.e. a 'checklist approach' is necessary to achieve the relevant overall disclosure objective. The checklist would then be applied to the relevant facts and circumstances of the entity as explained in our first bullet point above. Additional, supplemental disclosures based on specific disclosure objectives, incorporating the information 'through the eyes of management' could then be included. This combination would ensure that the minimum disclosures capture the information relevant to the user. It would also allow entities to provide more information if this is considered relevant based on the disclosure objectives and management's view of the entity.

In following such an approach, we believe that the right balance between mandatory requirements and application of judgment will be achieved as well as an appropriate balance between addressing the overall objective and the specific requirements. In turn this will help to manage the gap between what management perceives relevant compared with the views of the users.

Please find our detailed responses to the "Questions for respondents" included in the Request For Information ('RFI') in Appendix A to this letter. Please note that we have only responded to the questions which are not addressed by the above comments.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney PwC Global Chief Accountant and Head of Reporting (henry.daubeney@pwc.com), Marie Kling (marie.kling@pwc.com), Global IFRS Leader for Financial Instruments or Gary Berchowitz (gary.x.berchowitz@pwc.com), Global IFRS Leader for Non-Financial Instruments.

Yours sincerely,

PricewaterhouseCoopers

Henry Daubeney
Global Chief Accountant and Head of Reporting

Appendix A

<u>Proposed amendments to IFRS 13 Fair Value Measurement applying the proposed Guidance</u>

Assets and liabilities measured at fair value in the statement of financial position after initial recognition

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?

Please refer to the cover letter for further details on our concerns surrounding the overall disclosure objective.

In some instances, we note that the wording of the disclosure has remained similar, which raises the question as to whether the proposed exposure draft will address the "disclosure problem".

- For example, paragraph 101 refers to considering the level of detail necessary. This is consistent with the current wording in IFRS 13 paragraph 92. The ED does not provide additional guidance on what the right level of detail is. Further clarification on this would be helpful by providing a list of factors to consider. In particular, we feel the additional wording included "ensure that relevant information is not obscured by the inclusion of insignificant detail" should be updated to refer to obtaining information commensurate with the level of risk to the entity which will address our concern on determining relevance as explained in the cover letter.
- Similarly, paragraph 100(a) of the ED refers to B48 which is consistent with the wording in IFRS 13 paragraph 94. The ED does not provide further clarification on the factors to consider when assessing the appropriate classes, and linked with this whether there is an appropriate level of disaggregation of information.

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.

Please refer to the cover letter for further details on our concerns surrounding the disclosure objectives.

- We believe that the proposed disclosure requirement in 103(b) should be clarified as it is unclear what management would need to disclose to address this requirement.
- As explained in the cover letter, our main concern surrounding the specific disclosure objectives is that this will result in eliminating too much information given the amount of disclosures that are now covered by non-mandatory disclosures. However, there are also some instances in which disclosures have been expanded beyond their current scope in IFRS 13.
- Paragraph 107 and 111 of the ED do not refer to level 3 fair values specifically, and would therefore equally apply to instruments recognised as level 1 or level 2. We acknowledge that there may be some instances in which providing additional disclosures on these levels may be appropriate. However, without considering the key principles in determining relevance as explained above, this could inherently result in information that is not necessarily relevant being provided which would exacerbate the “disclosure problem”.
- As paragraphs 107 and 111 are no longer specific to level 3 instruments alone there is a risk that this could result in entities providing information that is not necessarily relevant through potential duplication of information that may already be provided under the IFRS 7 disclosure requirements. We believe that in considering the application of these disclosures to level 2 instruments, the board should have regard to the level of relevant information that is not already captured by existing disclosures (e.g. IFRS 7 paragraphs 40-42)

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?

Please refer to the cover letter for further details on our concerns surrounding the disclosure objectives, as well as our response to Q7.

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 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?

Please refer to the cover letter for further details on our concerns surrounding the disclosure objectives.

In relation to specific disclosures for instruments that are not measured at fair value for which fair value is disclosed, we believe this should be updated to instances where this would be relevant to the users, for example if there is a significant difference between the fair value and the carrying value.

For example, where the disclosure is provided for financial instruments held at amortised cost, the measurement is only achieved if the business model is 'hold to collect'. In such a scenario, providing additional information on the FV may not be relevant to the users, particularly where the FV is not significantly different to the carrying amount.

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?

Please refer to the cover letter for further details on our concerns surrounding the disclosure objectives as well as our response to Q9.

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 also disagree with the approach to remove illustrative examples where the disclosure requirements have been made non-mandatory in the proposed ED. We believe this would enforce the message that non-mandatory disclosures are not required even if they may be relevant to the users of the financial statements.

For example:

- We disagree with the removal of IE64. Where this is relevant to the users of the financial statement, we consider this would be a good example of the types of disclosures that would be required.
- We disagree with the removal of example 18. Although there may be some entities where this disclosure is not relevant, the current example provides a good indicator of the level of disclosure that might be appropriate where this is relevant to the users' understanding. The removal of the example suggests this would no longer be the type of disclosure that would be expected under IFRS 13, even where it may be relevant.

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?

The Board proposes specific disclosure objectives that require an entity to disclose information about:
(a) amounts in the primary financial statements relating to defined benefit plans (paragraphs 147D–147F of the [Draft] amendments to IAS 19);
(b) the nature of, and risks associated with, defined benefit plans (paragraphs 147G–147I of the [Draft] amendments to IAS 19);

(c) expected future cash flows relating to defined benefit plans (paragraphs 147J–147M and A2–A7 of the [Draft] amendments to IAS 19);
(d) future payments to members of defined benefit plans that are closed to new members (paragraphs 147N–147P of the [Draft] amendments to IAS 19);
(e) measurement uncertainties associated with the defined benefit obligation (paragraphs 147Q–147S of the [Draft] amendments to IAS 19); and
(f) reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans (paragraphs 147T–147W of the [Draft] amendments to IAS 19).

We do not agree with the proposed required disclosure and non-mandatory disclosure, we believe a 'checklist' approach as we have explained in the 'Our proposed approach' section of our cover letter, should be followed. Please refer to the cover letter for further details on our concerns surrounding the disclosure objectives as well as our response to Q13 and Q15.

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.

(d) Currently, a significant proportion of IAS 19 disclosures are focused on defined benefit pension schemes. It is our understanding that many of these schemes are either closed to new entrants, or indeed closed so that no further benefits can be earned by members of the scheme. If the Board chooses to pursue specific disclosure objectives or requirements for IAS 19 we believe that disclosures which provide a split between schemes that are open, closed to new entrants, or closed without future benefits being earned, would be helpful. For example, specific disclosure requirements focus on funding of such closed defined benefit schemes.

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 do not agree with the proposed required disclosure and non-mandatory disclosure, we believe a 'checklist' approach as we have explained in the 'Our proposed approach' section of our cover letter, should be followed.

For example, the full set of reconciliations currently required by IAS 19 paras 140 and 141 tries to mitigate the loss of information that results from the net accounting required by IAS 19. In our view, it is difficult to see how a reconciliation of only the net defined benefit liability can be adequate to satisfy the information needs of users. In addition, sensitivity analyses, which were only introduced in 2011, in response to requests from users of financial statements, have been removed as mandatory. This proposal represents a change in perspective from users to preparers and is surprising in view of the feedback recently received from users of financial statements. These are a couple of specific examples, please refer to the cover letter for further details on our concerns surrounding the specific disclosure objectives of defined benefit plans as well as our response to Q13 and Q15.

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 do not agree that this proposed objective would result in the consistent provision of useful information. We agree with the proposed overall disclosure objective for defined contribution plans, however we believe a 'checklist' approach as we have explained in the 'Our proposed approach' section of our cover letter, should also be followed.

Additionally, in the ED there appears to be no explicit requirement to disclose the amount of the defined contribution expense for the period. We believe that there should be an explicit requirement to disclose the defined contribution expense for the period.

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 believe there is a particular need to focus on multi-employer plans and defined benefit plans that share risks between entities. Please refer to the cover letter for further details on our concerns surrounding the specific disclosure objectives as well as our response to Q13 and Q15.

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 with the proposed overall disclosure objective for employee benefit plans, however we believe a 'checklist' approach as we have explained in the 'Our proposed approach' section of our cover letter, should also be followed. Please refer to the cover letter for further details on our concerns surrounding the specific disclosure objectives as well as our response to Q13 and Q15.

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 also disagree with the approach to remove illustrative examples where the disclosure requirements have been made non-mandatory in the proposed ED. We believe this would enforce the message that non-mandatory disclosures are not required even if they may be relevant to the users of the financial statements