MNP LLP

January 11, 2022

SENT ELECTRONICALLY

International Accounting Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sirs/Mesdames:

Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach*

Proposed Amendments to IFRS 13 and IAS 19

Thank you for the opportunity to comment on the above Exposure Draft ("ED").

The proposal would apply to all entities that prepare financial statements in accordance with International Financial Reporting Standards ("IFRS"). In Canada, a wide range of entities prepare their financial statements in accordance with IFRS, including not-for-profit organizations, public and private entities, government business enterprises, government business partnerships and other government organizations.

MNP LLP ("MNP") supports the International Accounting Standards Board's goal in undertaking this initiative, to improve the quality and usefulness of disclosures provided in financial statements prepared in accordance with IFRS. We agree that it is imperative that application of the IFRS Standards result in financial statement notes that satisfy the needs of the users, by providing all relevant and meaningful information without including irrelevant, extraneous information. However, there would also likely be some significant challenges with a full-scale adoption of the approach outlined in this ED, which transfers significantly more responsibility onto the financial statement preparers to determine what disclosures would meet the overall and specific disclosure objectives that would be outlined in each IFRS Standard.

The use of checklists for reporting disclosures in the financial statements can and does result in the inclusion of unnecessary and irrelevant disclosures being provided, but also minimizes the risk that important disclosures are missing. There would likely be some resistance to the shift from checklists to disclosures based on judgements for a number of reasons, including reluctance to take on greater risk of providing incomplete disclosures to the financial statement users, the need for greater knowledge and experience to ascertain what disclosures would satisfy the objectives, and the burden of having to implement changes to existing processes for financial statement disclosure reporting.

We believe that the challenges for financial statement preparers, auditors and securities regulators under the approach proposed in the ED will vary by IFRS Standard. Determining how best to satisfy the disclosure objectives related to some Standards will be easier for some Standards than for others. We expect that the quality of disclosure reporting would also be a function of the skill and experience of the financial statement preparer and the control processes entities have in place related to judgements on the amount and type of information required to meet disclosure objectives.

We expect that disclosures based on judgement would likely result in greater disclosure diversity in practice, which would create new challenges for auditors and regulators that have experienced a fairly high degree of consistency from entities under the 'checklist' approach.

As we initially indicated, we are in favour of initiatives intended to improve the quality of disclosure reporting for users. We are concerned that the approach proposed in the ED would not necessarily improve disclosure quality so much as reducing one problem (too much irrelevant disclosure) while introducing other problems.

Our responses to the questions set out by the International Accounting Standards Board (the "**Board**") in its request for comments are provided below.

<u>The proposed Guidance for developing disclosure requirements in IFRS Standards in future</u>

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 Standard-focused disclosure objectives would clarify how the overall objectives provided in the *Conceptual Framework for Financial Reporting* and IAS 1 *Presentation of Financial Statements* apply to individual accounts, transactions and other matters reported in the financial statements. Understanding the purpose of Standard-specific disclosures in the context of the overall information needs of the financial statement users might also assist some preparers to prepare better disclosures.

We don't, however, expect that Standard-specific overall disclosure objectives would result in a significant difference to the overall relevance and usefulness of financial statement disclosures. They are too general to be practically used in determining the appropriate scope and scale of disclosures. Conversely, we caution that any over-reliance on overall disclosure objectives in making significant decisions about disclosures could be detrimental to the overall quality of financial statement disclosures, if not supplemented by sufficient specific guidance on necessary disclosures. We suggest it may be helpful to indicate the purpose of providing overall disclosure objectives and their limitations to ensure that disclosure judgements don't become largely based on overall objectives that could be broadly interpreted, which may result in inconsistent application and incomparability.

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?**

Our view is that general disclosure objectives alone would not provide adequate guidance for financial statement preparers to improve the quality and usefulness of financial statement note disclosures. Accordingly, we agree that more specificity with respect to the disclosure requirements provided within individual IFRS Standards would be a necessary component of this approach.

The specific disclosure objectives provided in the standards piloted in the ED, including the explanations of how the information will be helpful to users, in our view, clearly articulate what information must be provided as well as the purpose behind why that information is considered important for the users of the financial statements. There is very little ambiguity related to what specifically needs to be provided in the financial statement notes to satisfy that objective.

Although we agree that the proposed specific disclosure requirements piloted in the ED provide sufficient information for us to ascertain what disclosures would satisfy those specific objectives, we aren't certain whether this would be a view shared universally. To the extent that financial statement preparers would not be comfortable applying judgement to satisfy the specific disclosure objectives of any or all IFRS Standards we expect that a segment of preparers will prefer to follow a checklist-based approach.

Providing an explanation of how the information would be helpful to the user would, in our view, help preparers when making materiality judgements about what specific disclosures are useful and necessary. While we recognize that guidance on the application of materiality to financial statement disclosures is covered in other guidance, we believe that integrating the principles of materiality related to disclosures reporting into the overall or specific disclosure objectives sections of each of the specific

Standards would assist preparers to reduce the number of irrelevant disclosures reported in the financial statements.

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 expect that requiring disclosures based on satisfying disclosure objectives wouldn't be a welcome change for preparers that prefer the unambiguity of an approach based on specific disclosure requirements over having to interpret what disclosures are needed to satisfy disclosure objectives. The application of judgement necessary for making such determinations may also require more skill and experience than some preparers' existing processes can provide.

Disclosure checklists are commonly considered to be an effective control to ensure the completeness of financial statement disclosure reporting. Although the application of a disclosure checklist may and sometimes does result in the inclusion of irrelevant disclosures in the financial statements, preparers using a checklist have confidence that all relevant information disclosures have been provided. There is a higher inherent risk that the disclosures that are important for users' decision-making are incomplete or omitted entirely if disclosure checklists are not used as a detective control tool.

Auditors would also have to implement certain changes to their processes in order to ensure disclosures satisfy disclosure objectives. Differences of opinion about whether disclosure judgements made by the auditors' clients sufficiently satisfy disclosure objectives are likely to be an outcome of a shift to an objectives-based approach, and we also expect that there will be greater disclosure diversity in practice as a result of different interpretations about the type and extent of disclosures necessary to satisfy disclosure objectives.

Given the likely scale of process changes, including possible changes in roles and responsibilities and a greater inherent risk of failure to disclose relevant useful disclosures, we suggest that allowances be made for a long transition period, possibly also incorporating additional allowances for entities that are below certain size thresholds, if the Board decides to proceed with the proposals outlined in the ED.

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?

Although we appreciate that the intent behind providing non-mandatory disclosures is to assist financial statement preparers in determining how they can satisfy the overall and specific disclosure objectives, we anticipate that the outcome related to non mandatory disclosures will be relatively binary in practice.

There will most likely be a group of financial statement preparers who will provide the disclosures, whether they are described as non-mandatory or not, out of an abundance of caution. On the other hand, we anticipate that there will also be financial statement preparers who would interpret 'non-mandatory' disclosures as being always optional but never required disclosures.

We expect that entities previously providing disclosures that are non-mandatory under the proposed approach would generally be able to make well-considered choices about whether it would be helpful to the users to continue to include those disclosures or not. Decisions about whether to provide non-mandatory disclosures will be more difficult when applying an IFRS Standard for the first time, or when applying an IFRS Standard to a new transaction or situation.

Differences in judgements about the need for non-mandatory disclosures would likely result in less consistent disclosure reporting among entities, and it would be challenging for auditors and securities regulators to enforce the consistent reporting of non-mandatory disclosure requirements.

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 welcome the Board's efforts to develop disclosure requirements by applying a consistent methodology. Comments on these aspects have been included in our responses to the previous questions, where applicable.

Proposed amendments to IFRS 13 *Fair Value Measurement* applying the proposed Guidance

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?

The proposed overall disclosure objectives provided in the proposed amendments to IFRS 13 appear largely consistent with the implicit objectives of the existing IFRS 13 disclosure requirements. For this reason, we do not expect that the proposed amendments would result in significant changes in fair value disclosures.

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.

We agree that the specific disclosure objectives could help preparers understand the specific needs of the primary users of the financial statements. However, the proposed specific disclosure objectives provided in the proposed amendments to IFRS 13 appear largely consistent with the implicit objectives of the existing IFRS 13 disclosure requirements. For this reason, we do not expect that the proposed amendments would result in significant changes in fair value disclosures.

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?**

Paragraphs 105 and 109 describe disclosures that must be made in order to meet the specific disclosure objectives in paragraphs 104 and 108, respectively, and then also provide non-mandatory disclosures for entities to consider when determining how to satisfy the specific disclosure objectives. We support the Board's use of this hybrid approach. Including mandatory disclosures will lessen the burden and reduce the risk entities would otherwise have if they had to make all decisions about what disclosures are necessary. Mandatory disclosures will also ensure a baseline for consistency in financial statements disclosure reporting. The non-mandatory disclosure information would allow entities to make entity-specific judgements about whether such information would be relevant or useful to their financial statement users and, as a result, may eliminate some disclosures that are only currently provided because they are not considered optional under the existing Standard.

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?**

We agree with the development of a specific disclosure objective for assets and liabilities not measured at fair value by focusing on the detailed information needs of the users of the financial statements - specifically, on the amount, nature and other characteristics of the items not measured at fair value.

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 that the entities should be required to disclose the nature, risks and other characteristics of assets and liabilities not measured at fair value but for which fair value is disclosed in the notes.

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?

Our comments are as outlined in response to other questions.

<u>Proposed amendments to IAS 19 Employee Benefits applying the proposed Guidance</u>

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?

Although we agree that the overall and specific disclosure objectives outlined for IAS 19 in the proposed amendments are appropriate objectives, we think that it would be very challenging for many financial statement preparers to determine the necessary disclosures to satisfy those disclosure objectives.

Practically speaking, if the proposed amendments to IAS 19 were made, we would expect that the vast majority of entities that report defined benefit plans wouldn't be comfortable with changing the amount and type of information disclosed and would default to the disclosure of the same information as they are currently disclosing. In cases where that decision was made, such disclosures would, in the near term at least, sufficiently satisfy the disclosure objectives. However, over time, external changes (i.e., changes in funding and other legislation, actuarial assumptions, etc.) or internal changes (i.e., plan amendments, governance, participation, etc.) may erode the effectiveness of the same disclosures in satisfying the disclosure objectives.

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 agree that the proposed specific disclosure objectives may capture detailed user information needs; however, the Board should consider explaining the specific disclosure requirements in more detail to ensure the preparers do not omit relevant information, rendering the disclosures incomplete and inconsistent.

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 information included in paragraphs 147F, 147M and 147V as these disclosures are necessary to meet the specific disclosure objective.

Under the proposed amendments, the disclosure of non-mandatory information will depend on a preparer's judgement of whether the non-mandatory information meets the specific disclosure objective. This may result in incomplete and inconsistent disclosures among different entities and may cause comparability issues.

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 the proposed objective would result in the provision of useful information on the effects of defined contribution plans on an entity's financial statements.

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?

Combining the overall disclosure objectives for defined contribution plans with the specific disclosure objectives for the defined benefit plans may cause confusion in applying the requirements. For greater clarity, the Board should consider separating the disclosure requirements for the two types of multi-employer plans.

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 that the proposed overall disclosure objectives would generally provide useful information to the users of the financial statements about other types of short-term and long-term employee benefits.

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?

The disclosures currently required for defined benefit plans under IAS 19 are extensive, often taking up two or more pages in the financial statement notes. They are also, generally, not well understood. These two facts likely increase the risk that financial statement preparers, motivated to simplify disclosures, may make judgements about necessary disclosures that would cause the omission of important information. In these situations, auditors would be challenged to explain to preparers why certain missing disclosures are critical to meeting the objectives.

We would be pleased to offer our assistance to the IASB in further exploring issues raised in our response and in helping to find alternative solutions which meet the needs of the financial statement users.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous, medical and legal professionals, not-for-profit organizations, municipalities and other public sector entities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

MNP LLP

Jody MacKenzie, CPA, CA

Assurance Professional Standards