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ED/2021/03 Disclosure Requirements in IFRS Standards—A Pilot Approach

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2021/03 'Disclosure Requirements in IFRS Standards—A Pilot Approach' (the ED). In responding we have considered the ED, as well as the accompanying draft Basis for Conclusions.

We are supportive of the Board's continuing efforts to improve the quality of financial reporting in IFRS financial statements through its Disclosure Initiative.

We also support the use of an objectives-based approach to disclosure to provide some context and guidance to preparers of financial statements. We see merit in the Board providing for all the IFRS standards currently on issue an overall disclosure objective as set out in paragraph 100 of IFRS 13 'Fair Value Measurement' and paragraphs 147A to 147C in IAS 19 'Employee Benefits'.

However, we do not support the removal of detailed disclosure requirements from accounting standards. Instead, we believe there should be a detailed list of disclosures that should be given if assessed to be material. This should be supported by an explicit requirement to determine whether additional information or explanations should be given to meet the relevant disclosure objective. In the absence of having a clear explanation in each accounting standard about why information is required by users, when it is needed and how it will be used, the consequences set out by the three members of the Board who dissented on issuing this ED, may result. Like them, our view is the application of the approach set out in the ED to disclosure will be burdensome for preparers, it will reduce comparability for users, and it will create difficulties from an enforcement perspective for both independent auditors and accounting regulators.

The demand for digital reporting will continue to grow rapidly. While BC48–49 of the ED notes the project team has engaged with the taxonomy team on matters such as application issues and tagging, the ED does not explain the linkage between the proposed disclosure changes and the Board's expectations for digital reporting. In this context, we believe any proposed guidance on disclosures should always consider the implications they may have on digital reporting taxonomies as well.

We have serious concern about the proposal to introduce the new disclosure requirements to both IFRS 13 and IAS 19 without a clear understanding of the timetable as to when the methodology proposed will be applied to existing accounting standards and future standards. In this context, we are unable to support the issuance of this ED because it would result in different disclosure principles being applied to different accounting standards. What we would like to see is the Board considering the feedback received on this ED and then assessing the consequential impact on all the other standards currently on issue before proceeding to change the current requirements set out in IFRS 13 and IAS 19. Given this, we have chosen not to respond to questions 6 to 18 of the ED.

Finally, while we are supportive of the Board's efforts in this area, we do not see this ED as an operational imperative. Instead, we would like to see the Board spend its time on more pressing matters such as the recognition, measurement and disclosure of crypto-currencies and emissions trading schemes. We are also not convinced that high quality disclosures cannot be provided using the standards that currently exist provided sufficient attention is given to (a) being professionally sceptical about the judgements being made by management and (b) materiality being properly assessed to determine what disclosures will be relevant to the users of financial statements.

Our responses to questions 1 to 5 in the ED's Invitation to Comment are set out in the Appendix.

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If you have any questions on our response, or wish us to amplify our comments, please contact me by email (mark.hucklesby@gti.gt.com).

Yours sincerely,

Mark Hucklesby

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Appendix: Our responses to the ED

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 including clearly drafted disclosure objectives in all of the standards would be a useful way to help preparers, auditors and regulators have a good understanding of what the overall information requirements of users are and, importantly, whether the disclosures provided meets those needs.

However, for the resulting disclosure to be useful to users it is important that the information needs of a user from a particular accounting standard is clearly explained setting out what information is needed, why it is needed and what it will be used for. This will enable preparers to make a more informed assessment as to whether the relevant information is required to be given.

We are supportive of including an overall disclosure objective in IFRS, but not to the extent it is essentially repeated in each standard. Our recommendation is that such guidance could be included within IAS 1, 'Presentation of Financial Statements' or the proposed standard that will supersede it. More specific information should, in our view, always be dealt with in the relevant accounting standard.

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?**

As noted above, we agree that an overall disclosure objective should be supported and specific information needs should be set out in the relevant accounting standard.

On the understanding these specific disclosure objectives clearly explain how the primary users of the financial statements will use the information, we believe they will help preparers, auditors and regulators to assess which disclosures are material and, therefore should be included within 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 agree the 'checklist' approach the Board referred to in the Basis for Conclusions contributes to the apparent disclosure issues that were identified in the ED. This is because dealing with disclosure matters can be seen by some preparers as a compliance exercise, hence the existence of disclosure checklists, rather than the lens of providing high quality relevant and reliable information to their users.

As we have noted above, we are not convinced better application of judgement by management and well considered assessments of materiality to assess whether disclosure is relevant, cannot be provided using the existing approach. However, having a clearer explanation included within each IFRS standard (delivered by including an overall disclosure objective) of what information the users may need should enable a better assessment to be made as to whether the provision of particular information is material or not.

We do not support the complete removal of specific disclosure requirements from accounting standards. Rather, we consider a list of disclosures that are required if they are material is the best way to proceed. Whatever is specifically required by an IFRS should, in our view, always be supported by an explicit requirement to assess whether any additional information or explanations need to be given to meet the stated disclosure objective(s). The materiality assessment would certainly be helped by having a clear explanation of what the information need is, or might be, as we noted earlier.

From the perspective of an auditor, we have concern that moving towards a model that relies on preparers making appropriate judgements and materiality assessments could make enforcement more difficult as specific requirements would have been removed.

The approach taken by regulators will need to have some degree of international harmonisation on how they assess the disclosures made. Some preparers may choose to disclose all of the non-mandatory information, thereby defeating the object of the exercise, and others may decide to disclose as little as possible. This could have unintended consequences on the comparability of IFRS financial statements prepared in different jurisdictions. We suggest that the Board should extensively field-test the proposals set out in this ED with securities regulators around the world before looking to implement a revised approach to disclosures to ensure their expectations are met.

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?

For the reasons noted in the previous questions we do not support the Board's proposed approach. That said, if the Board was continue and make changes to standards as set out in the ED, our view is the wording that has been proposed would be the best way to deal with this matter.

Question 5—Other comments on the proposed Guidance

Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the Board proposes to develop disclosure requirements in IFRS Standards in future applying the proposed Guidance. Paragraphs BC188–BC212 of the Basis for Conclusions explain the expected effects of any disclosure requirements developed using the proposed Guidance.

Do you have any other comments on these aspects? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

We have no other comments to make other than the Board should consider whether the section about what information users need and what they do with it might be better located within the body of the proposed standard rather than left within the Basis for Conclusions.