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12 January 2022

Dear Sir

Exposure Draft ED/2021/3: Disclosure Requirements in IFRS Standards - A Pilot Approach

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the DP.

We support the efforts of the IASB to improve the quality of financial statements and have consistently supported the Disclosure Initiative project. We agree with the IASB's observations relating to the disclosure deficiencies in the application of IFRS Accounting Standards, and also support the inclusion of disclosure objectives in IFRS Accounting Standards. However, we do not believe that the approach as set out in the exposure draft would reduce the deficiencies observed by the IASB, and in some cases, they would be likely to worsen the deficiencies and make the enforcement of IFRS Accounting Standards significantly more challenging for auditors and regulators. We have a great deal of sympathy for the points that are made in the alternative view of Mr Edelman, Mr Gast and Ms Lloyd, and urge the Board to give these full consideration in its redeliberations.

Although we support the inclusion of disclosures objectives in IFRS Accounting Standards, we strongly believe that these need to be accompanied by comprehensive disclosure requirements that must be followed (subject to materiality), in a similar way to more recent standards such as IFRS 15 *Revenue from Contracts with Customers*. For older standards, an appropriate and efficient approach might be to add disclosure objectives (if these do not already exist) and to review existing disclosure requirements in each standard to determine whether any existing disclosures requirements should be deleted and new requirements added.

We also believe that the IASB should consider a project to develop a new IFRS that explains how disclosure objectives and requirements in IFRS Accounting Standards are to be applied. This new IFRS Accounting Standard would, for example, explain how preparers determine whether a disclosure requirement is material, the overall purpose and objective of notes to

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financial statements, and how they complement the amounts recognised in the primary financial statements.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

Appendix

Question 1

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?

We agree that overall disclosure objectives are useful in describing the overall information needs of users of financial statements. Certain existing IFRS Accounting Standards already include overall disclosure objectives that set out the 'spirit' of what the specific disclosure requirements are trying to achieve (e.g. IFRS 15.110, IFRS 16.51 and 89, IFRS 17.93, etc.).

Additionally, these overall disclosure objectives can serve as a 'back stop' in situations where an item of information is not specifically required to be disclosed by an IFRS Accounting Standard, but in the view of the preparer of financial statements and/or an auditor or regulator, it is material to a user's understanding of the financial statements.

(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 overall disclosure objectives assist in determining whether notes to financial statements meet the needs of users of financial statements for the reasons noted in our response to question 1(a).

For auditors, these disclosure objectives are useful, when taken in conjunction with IAS 1.31, in ensuring that preparers disclose all material information. Although IFRS Accounting Standards contain extensive disclosure requirements, the IASB cannot create specific disclosure requirements that address every possible scenario in every industry, particularly given how quickly industries evolve and new types of transactions and arrangements are entered into by entities. These overall disclosure objectives therefore assist preparers and auditors in ensuring that information about these transactions and circumstances is disclosed when material.

Question 2

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?

We agree that specific disclosure objectives and explanations of those objectives would help entities apply judgement. In particular, we believe that explanations of why disclosure requirements are included in IFRS Accounting Standards would assist preparers in determining what information should be disclosed and what additional information may not need to be disclosed to meet disclosure objectives.

However, as we explain in our responses to questions 3-5, we do not support the proposed approach to eliminate specific disclosure requirements from IFRS Accounting Standards. However, we believe that disclosure objectives would be useful in combination with specific disclosure requirements since objectives more fully explain the underlying rationale for disclosure requirements.

(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?

We do not agree because, as explained in our response to questions 3-5, we believe the proposed approach would introduce significant challenges in enforcing disclosures in financial statements, both for auditors and regulators.

Question 3

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 do not agree with the proposed approach. While current IFRS Accounting Standards include disclosure requirements that often use terminology such as 'shall', which indicates a mandatory disclosure requirement, IFRS Accounting Standards already note that immaterial items need not be disclosed (IAS 1.29, IAS 8.8). Therefore, the current approach as set out in IFRS Accounting Standards requires preparers, auditors and regulators to apply judgement in determining which specific disclosure requirements in IFRS Accounting Standards are material or immaterial.

Because IFRS Accounting Standards already contain sufficient requirements for preparers to be permitted to only disclose material information, we believe the 'problems' that the proposals are attempting to resolve are primarily related to behaviour, not the requirements of IFRS Accounting Standards, including:

i. Poor application of materiality when determining which disclosures are to be included in financial statements.
ii. Excessive prudence in the preparation of financial statements: preparers would rather disclose 'too much' than 'too little' as there is a perception that there is only downside risk in disclosing too little rather than too much (e.g. actions taken by regulators).
iii. Poor application of tools used to review disclosures: many preparers, auditors and regulators use tools such as checklists to assess the completeness of disclosures included in financial statements. In using these tools, 'no' responses to specific disclosure requirements often result in warnings or other feedback that discourages the use of judgement in determining whether a potential lack of disclosure is material or not.
iv. Financial statements as compliance vs. communication: as a consequence of the combination of points (i)-(iii), financial statements are often perceived as an exercise in compliance (i.e. pass or fail) rather than communication, with some entities using other documents such as strategic reports or MD&A to communicate information to users. With this perspective in mind, preparers may think of the financial statements as a template that is 'rolled forward' each year, populated with new figures and any 'new' disclosure requirements rather than as a document that should be constantly revisited in a more fulsome manner.

We believe the proposed approach would worsen the quality of financial statements and introduce significant challenges for preparers, auditors and regulators. In our experience, it is already challenging to enforce the disclosure of information that is not explicitly required by an IFRS Accounting Standard. If the language was made less prescriptive with only disclosure objectives, we believe that the amount of useful information included in financial statements would decrease because auditors and regulators would have fewer tools to enforce disclosure.

Our views are consistent with those as set out in the alternative view published by Mr. Martin Edelmann, Mr. Zachary Gast and Ms. Suzanne Lloyd, which is included in the Basis for Conclusions that accompanies the exposure draft. We have a great deal of sympathy for the points that are made in the alternative view, and urge the Board to give these full consideration in its redeliberations.

In addition to the points made in the alternative view, we also believe the proposed approach would conflict with the shift in financial reporting to electronic formats, including XBRL. Specific disclosure requirements are easily tagged and make comparison between entities simple. If specific disclosure requirements were reduced or eliminated, we believe it would be challenging for users of financial statements to compare information, particularly when electronic tagging is used.

Question 4

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?

We do not agree with the proposed language for the reasons set out in our response to question 3. We believe that IFRS Accounting Standards already contain requirements that permit an entity to not disclose information that is specified by an IFRS Accounting Standard but is considered to be not material.

We strongly disagree with the proposed approach of including non-mandatory disclosures. Instead, we believe that each IFRS Standard should contain disclosure objectives, which are accompanied by specified disclosures that are mandatory (subject to materiality), in a similar way to more recent standards such as IFRS 15 *Revenue from Contracts with Customers*.

Our alternative approach is set out in our response to question 5.

Question 5

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 agree with the observations of the IASB which have led to the issuance of the exposure draft, however, we do not believe the proposed approach would improve the quality of financial statements. Instead, it is likely that the quality of financial statements would be reduced. Additionally, we believe that applying the guidance to 'older' IFRS Accounting Standards would require significant resources due to the number of IFRS Accounting Standards that would need to be significantly revised.

We believe an alternative approach might be useful, which would still leverage much of the work done to date by the IASB. We believe the IASB should consider whether a new IFRS Accounting Standard might be developed that explains how disclosure objectives and requirements in IFRS Accounting Standards are to be applied. This new IFRS Accounting Standard would, for example, explain how preparers determine whether a disclosure requirement is material, the overall purpose and objective of notes to financial statements, and how they complement the amounts recognised in the primary financial statements. This IFRS Accounting Standard could also more fulsomely explain how the requirements of IAS 1.122 and 125 should be applied, which would reduce duplication in other IFRS Accounting Standards, as well as the overarching requirements in IAS 1.31 and 112.

Questions 6 – 18

We do not have specific responses to questions 6 – 18 relating to the application of the proposed Guidance in IFRS 13 and IAS 19. We do not support the proposed guidance for the reasons set out in our response to questions 3 – 5, therefore, we do not support the proposed amendments.