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12th January 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Via email: commentletters@ifrs.org

Dear Sir/Madam

**Re: IFRS Standards – Disclosure Requirements in IFRS Standards –
A Pilot Approach – Proposed Amendments to IFRS 13 and IAS 19
(ED/2021/3)**

1. We have pleasure in replying to your invitation to comment on this Exposure Draft (ED).
2. We note the history of the disclosure project and the need to change as set out in paragraphs BC1-11 of the Basis for Conclusions document. It appears that we have come late to this initiative, considering the first related amendments to IAS 1 were issued in December 2014 for accounting periods beginning on or after 1st January 2016. However, we agree with the disclosure problem set out in the Introduction to the ED and repeated in paragraph BC1 in the Basis for Conclusions document that financial statements contain:
 - 2.1. Not enough relevant information
 - 2.2. Too much irrelevant information, and
 - 2.3. Ineffective communication of the information provided.
3. We note the causes of and possible ways to address the disclosure problem prompted by the March 2017 discussion paper on “Disclosure Initiative – Principles of Disclosure” as summarised under the need for change in paragraphs BC5 – 11 of the Basis for Conclusions document. We agree that the main cause of the problem is the ‘checklist’ approach where preparers of

financial statements, auditors and regulators focus their efforts on complying with the specific disclosure requirements in individual IFRS Standards and often do not spend time applying the overarching concept of materiality to disclosures. We also agree with the suggestion that the Board could help solve the disclosure problem by improving its approach to developing and drafting disclosure objectives and requirements in IFRS Standards.

4. In our reviews and analyses of annual reports and audited financial statements of entities, we have generally felt that preparers do not do a good job of deciding what is material or not and prioritising the reporting of only material information. As primary users of financial statements, we support anything that tries to address the resulting disclosure problem. Some main reasons for this are there is never enough time to sift the reams of immaterial information that preparers supply for the material items; and preparers are being paid enough to risk making judgements about material items and having the courage to report only these and not hide behind compliance checklists.
5. We would find it helpful to comment further if the IASB held a consultation follow up request for input from us on the IFRS 13 and IAS 19 disclosure proposals, similar to the one we had for the goodwill and impairment project on 23rd November 2021. We suggest this includes examples with the disclosure problem before the proposals are implemented with comparisons to how these may change after the proposals are implemented. In our view, the illustrative examples in the ED are too generic to be meaningful. We would find our suggestion of an IASB request for input helpful as it would enable us to see practical examples rather than just thinking about the proposals theoretically.
6. Having said this, we are supportive of the proposals – the proposed guidance, the proposed amendments to IFRS 13 and IAS 19 and the proposed consequential amendments to IAS 34 “Interim Financial Reporting” and IFRIC 17 “Distributions of Non-Cash Assets to Owners”. We are happy with the definition of materiality in IAS 1 - Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. In our opinion, anything that gets preparers of financial statements, through making appropriate materiality judgements, to provide relevant, not irrelevant and reasonably understandable information is good.
7. We would be pleased to be involved in and help with any future reviews of other IFRS and IAS to develop their disclosure requirements under the proposed guidance.
8. In the context of the above overall comments, we answer your 18 consultation questions as follows.
9. **Q1. 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?

9.1. We agree that the Board should use overall disclosure objectives within IFRS Standards in future because this should focus preparers on relevant user information needs rather than a checklist. In practice, it will be interesting to see how preparers try to find out from their users, like us, what relevant information will satisfy those overall disclosure objectives. We also agree that overall disclosure objectives will help entities, auditors and regulators determine whether information provided in notes to financial statements meets overall user information needs because it should focus their attention on the objectives and not any checklist of requirements.

10. **Q2. 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?

10.1. We agree generally that specific disclosure objectives should help entities apply judgements effectively when preparing financial statements to resolve the disclosure problem. However, entities will not be able to do this on their own or in isolation as they will need to obtain feedback from their users and auditors on what they think is relevant or not relevant information and what they think users would like to be able to do with relevant information. We recognise that IFRS cannot require entities and auditors to engage with users on disclosures but agree with the statement in the introduction to the ED that the disclosure problem is multi-faceted and that addressing it will require the input of all stakeholders. We would hope that the introduction of overall disclosure objectives, specific disclosure objectives and the identification of items of information to meet specific disclosure objectives in IFRS will prompt entities and their auditors to engage with users appropriately.

- 10.2. We also agree generally that specific disclosure objectives should provide a basis for auditors and regulators to determine whether an entity has applied judgements effectively. However, they will also need to understand how entities have used materiality in those judgements. If entities continue to provide obfuscating information checklists and immaterial irrelevant information, auditors and regulators will have to determine that the IFRS are not being met.
11. **Q3. 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.
- 11.1. We agree with this approach for the reasons already given above. We have no alternative approaches to suggest. We agree that this approach should discourage the checklist approach and help address the disclosure problem but would like to see it in practice before deciding whether or not it is effective on both these counts. We believe it should be enforceable as auditors and regulators will be able to determine that the standards have not been met if they are confronted with any checklist and/or immaterial and irrelevant disclosures.

- 11.2. We believe the costs of this approach will not outweigh the benefits to users of any resolution of the disclosure problem. In any event better and more relevant disclosures will be worth any extra cost.
12. **Q4. 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?
- 12.1. Out of the three options considered, we agree this was the best. However, we are not sure it makes clear that entities need to apply judgement to determine how to meet the specific disclosure objective. We think it would be clearer if an element of judgement was included in the language; for example “while not mandatory, the following information, if considered material and therefore relevant to an entity, may enable an entity to meet the disclosure objective”.
13. **Q5. 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).
- 13.1. We have no further comments.
14. **Q6. 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?

- 14.1. We agree that the proposed objective would result in the provision of useful information about assets and liabilities measured at fair value in companies' balance sheets.
- 14.2. However, we do not have a sufficient detailed knowledge of IFRS Standards to know if the proposed objective would resolve completely the disclosure problem of IFRS 13, in particular the proper application of materiality. We also have a concern about sensitivity analysis disclosures that should adequately inform users in a reasonably understandable way the fair value range of any relevant asset or liability and the fair value selected within this range and why. Our experience of sensitivity analyses is that they never really do this. We would hope that the proposals in the ED arising from the guidance proposals being applied to IFRS 13 do result in the provision of useful rather than irrelevant to users information.
15. **Q7. 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.
- 15.1. Yes we agree, subject to the concerns expressed for Q6 above at 14.2.
16. **Q8. 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?

16.1. Yes, we agree.

17. **Q9. 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?

17.1. Yes, we agree.

18. **Q10. 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?

18.1. Yes, we agree.

18.2. However, we have a concern that, for any asset or liability not measured at fair value and for which fair value is **not** disclosed in the notes to the financial statements that paragraphs 118 and 120 would be deemed not applicable and we would not necessarily understand why. We suggest where this situation arises for any asset or liability deemed material, there should be an explanation as to why no fair value measurement information is given.

19. **Q11. 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?

19.1. We have no further comments.

20. **Q12. 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?

20.1. Our limited general experience of defined benefit plans disclosures is that they are not bad but a little prone to including irrelevant or unhelpful information. Also, the closer a financial statement year end is to a related actuarial review the better as any uncertainties in respect of that review increase over time until then next three year review. As a result, the proposed objective should result in the provision of useful information, especially in relation to the relevant uncertainties of defined benefit plans. We do not have sufficient knowledge to suggest any alternative overall disclosure objective.

21. **Q13. 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.

21.1. In the same context as our answer to Q12 at 20.1, we agree with all the proposed specific disclosure objectives and have no other comments.

22. **Q14. 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?

22.1. We have no reasons for disagreeing with these proposals.

23. **Q15. 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?

23.1. We agree with the Board’s reasons set out in paragraphs BC156 – 158 of the Basis for Conclusions and therefore with the proposed overall disclosure objective for defined contribution plans.

24. **Q16. 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?

24.1. We do not have sufficient experience of these to comment.

25. **Q17. 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?

25.1. We do not have sufficient experience of these to comment.

26. **Q18. 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?

26.1. We have no further comments.

27. **UKSA (UK Shareholders' Association)** is the oldest shareholder campaigning organisation in the UK. We are a not-for-profit company that represents and supports individual shareholders who invest in the stock market.

28. There are many agents and intermediaries active in financial markets. Unlike them, we are an organisation solely representing people who are investing their own money.

29. UKSA was formed to provide individual shareholders with a voice, influence and an opportunity to meet like-minded fellow investors. It is structured as a non-profit making company with annual subscriptions. An elected Chairman and Board of Directors (all volunteers and individuals with a wide range of backgrounds and experience) monitor a regional organisation. Each region benefits from oversight by an elected regional Chairman and Committee.

30. We build relations with regulators, politicians and the media to ensure that the voice of individual shareholders is reflected in the development of law, regulation, and other forms of public policy. See www.uksa.org.uk

31. **ShareSoc (UK Individual Shareholders Society)** is the UK's largest retail shareholder organisation, acting in all areas of the UK stock market. It is a not-for-profit company.

32. ShareSoc is dedicated to the support of individual investors (private shareholders as opposed to institutional investors). We aim to make and keep investors better informed to improve their investment skills and protect the value of their investments. We won't shirk from tackling companies, the Government or other institutions if we think individual shareholders are not being treated fairly. See www.sharesoc.org
33. UKSA and ShareSoc have a combined membership of 22,000. Individual investors should always be in the minds of regulators as they own 15% of the UK stock market and 25% of AIM companies (source: <https://www.sharesoc.org/investor-academy/advanced-topics/uk-stock-market-statistics/>).
34. If you wish to clarify any of our comments or discuss our thoughts further, please contact Charles Henderson at charles.henderson@uksa.org.uk and Cliff Weight at cliff.weight@sharesoc.org.

Yours sincerely

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