

STAFF PAPER

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Project	Disclosure Initiative: Targeted Standards-level Review of Disclosures		
Paper topic	Use of language considerations		
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Purpose of this paper

1. Agenda Papers 11B and 11C present staff analysis and recommendations on the items of information that could be used to meet the disclosure objectives that the Board has tentatively decided on for IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurements*, respectively.
2. The purpose of this paper is to provide an analysis and recommendation on the language to use in articulating those items of information.

Structure of this paper

3. The paper is structured as follows:
 - (a) Background (paragraphs 4-7)
 - (b) Use of language (paragraphs 8-24)
 - (i) Prescriptiveness (paragraphs 9-16)
 - (ii) Comprehensiveness (paragraph 17)
 - (iii) Language alternatives (paragraphs 18-20)
 - (iv) Summary and potential consequences (paragraphs 21-24)
 - (c) Approach to staff analysis and recommendations in Agenda Papers 11B and 11C (paragraphs 25-26).

Background

4. During May-July 2018, the Board developed draft Guidance for the Board to use when developing and drafting disclosure objectives and requirements in future (draft Guidance)—see [September 2018 Board Agenda Paper 11A](#).
5. A key element of that draft Guidance is the use of specific disclosure objectives that explain why particular information is useful to primary users of financial statements (users). These objectives are intended to help preparers exercise better judgement in determining what to disclose. Applying the draft Guidance, the Board would:
 - (a) require an entity to comply with those disclosure objectives; and
 - (b) supplement those objectives with items of information that an entity *could* disclose in order to meet those objectives.
6. The draft Guidance requires the Board to consider the language to use when drafting disclosure objectives and items of information for disclosure. In particular, that the Board needs to consider the balance between language that is prescriptive enough to encourage comparability but not so prescriptive that it discourages the use of judgement.
7. To achieve this, the Board tentatively decided to use:
 - (a) prescriptive language—‘shall’—to require entities to comply with the disclosure objectives; and
 - (b) *less* prescriptive language—for example, ‘shall consider’ or ‘will normally disclose’—when referring to specific items of information that could be used to meet those objectives. That is, the draft Guidance does not specify the exact language to use for the items of information.

The Board considered that this approach would encourage the application of judgement without unduly compromising comparability between entities—see [July 2018 Board Agenda Paper 11C](#).

Use of language

8. Before analysing items of information to meet the specific disclosure objectives for employee benefits and fair value measurements, staff think it is important to first consider the exact language to use.

Prescriptiveness

9. We acknowledge that, in some instances, there could only be one effective way of meeting a particular specific disclosure objective. In those instances, it may be necessary for the Board to use prescriptive ‘shall’ language for the items of information for disclosure as well.
10. Some are of the view that it could be beneficial to use prescriptive language in more circumstances than those described in paragraph 9. For example, adopting a tiered approach whereby prescriptive language is used for the minimum set of items of information to be provided and less prescriptive language for the remaining items of information. In this section, we explain the advantages and disadvantages of using prescriptive language for items of information.

Arguments in favour of using prescriptive language

11. Those that support prescriptive language for items of information argue that prescriptive language:
 - (a) can enhance comparability between companies.
 - (b) is easier for preparers to comply with, and easier for auditors and regulators to assess compliance with. This is because it minimises the need to apply judgement.
12. In addition, they argue that using *less* prescriptive language for items of information:
 - (a) may make it difficult for users of electronic information to extract and analyse tagged data across entities. This is because entities might fulfil the specific disclosure objective in different ways. Using prescriptive language to require all entities to disclose the same information would allow users to use the specified IFRS Taxonomy element to easily extract the related information.

- (b) may increase the need for entities who report electronically to create entity-specific elements (extensions). This could make tagging less consistent across entities and make the tagged data difficult for users to use.

Arguments against using prescriptive language

- 13. Stakeholder feedback demonstrates that prescriptive language is a significant contributor to the behavioural issues contributing to the disclosure problem (see [February 2018 Board Agenda Paper 11E](#)). The use of such language will limit the Board's ability to encourage and support behavioural change from preparers, auditors and regulators when preparing and reviewing financial statement disclosures. Furthermore, such behavioural change is key to addressing the disclosure problem and it is critical that the Board undertakes steps to address those aspects of IFRS Standards that makes it difficult for stakeholders to make such changes.
- 14. Specifically, those that support *less* prescriptive language for items of information make the following arguments:
 - (a) regular use of prescriptive language, such as through a tiered approach, would lead preparers and other stakeholders to continue applying a checklist approach to disclosure and, consequently, discourage the application of judgement. This is because:
 - (i) items of information that use prescriptive language could become a new checklist, leading preparers to provide boilerplate compliance statements as is often the case today.
 - (ii) items of information that do *not* use prescriptive language could become similar to today's 'encouraged' disclosures and rarely, if ever, be provided.
 - (b) using *less* prescriptive language will help some preparers eliminate irrelevant information often disclosed in financial statements today.
 - (c) the focus of the Board's drafting language should be on reinforcing the message that preparers are *required* to comply with the specific disclosure objectives. This approach will encourage a change in mindset from complying with a list of required items of information to thinking about

whether user needs have been effectively met. Therefore, using prescriptive language for some items of information as well will detract from this message.

- (d) comparability will be encouraged by clear and specific disclosure objectives that explain user needs together with examples of items of information that could be used to fulfil those objectives.
- (e) disclosures resulting from the use of *less* prescriptive language in IFRS Standards can be used by users of electronic data. When an entity satisfies a specific disclosure objective from the list of items of information to consider disclosing, users can compare entities using the associated IFRS Taxonomy element for that item of information. In addition, when an entity satisfies an objective in a different way, users can still extract the information using the ‘text block’ tag for the specific disclosure objective.

Staff conclusion

- 15. Staff think the Board should use prescriptive language for items of information only rarely, for example when a particular item is always essential to satisfy a specific objective. This is for the reasons presented in paragraphs 13-14. We note that the draft Guidance already specifies that the Board may use more prescriptive language *in some but not all* cases and to clearly explain why it decided to use more prescriptive language.
- 16. In addition, we think the ease of using electronic data should not prevent the Board from taking steps to address the significant risk of preparers continuing to disclose irrelevant information. We think it is important for information to be comparable; however, we think both paper-based and electronic users would prioritise information relevance.

Comprehensiveness

- 17. Where there are multiple ways of satisfying a specific disclosure objective, staff think the Board should include these in the list of items of information to meet the objective. In other words, subject to cost and other considerations, we think the Board should include all those items of information users say would be effective in meeting the objective. We think this will be helpful:

- (a) in enabling stakeholders to fully understand the specific disclosure objective—i.e. what the Board had in mind when it developed the objective.
- (b) to preparers in deciding what to disclose. A comprehensive list of items would help preparers to consider different possibilities and thereby identify the least costly and most effective way to satisfy the objective in their own particular circumstance.
- (c) in encouraging judgement. This is because a comprehensive list of items to consider would clearly not be a checklist. This would help move away from the checklist mentality and towards consideration of disclosure that would be most useful for users.

Language alternatives

18. Staff observe that there are a number of ways the Board could articulate items of information that will align with the intended outcomes described in paragraph 17. For example, the Board could use:
- (a) ‘An entity shall consider disclosing the following to meet this objective’;
 - (b) ‘An entity will normally disclose the following to meet this objective’; or
 - (c) ‘While not mandatory, the following may enable an entity to meet this objective ...’.
19. We think the language in paragraph 18(b) would require the Board to describe what is ‘normal’ and identify the circumstances in which an item for disclosure is *not* required. Otherwise, we think reference to ‘normal’ disclosures could signal that entities are to provide all listed items of information in most situations. In addition, we think using ‘normal’ would not work well with a list of items that includes multiple ways of satisfying the specific disclosure objective. Therefore, we think this approach would conflict with the Board’s objective to encourage the use of judgement in deciding what to disclose.
20. We think the Board should use the language in paragraph 18(c) because it is most likely to achieve the outcomes described in paragraph 17. This is because it

explicitly states that preparers are not required to disclose the entire list of items but rather, to consider whether it is relevant for disclosure in their circumstance.

Summary and potential consequences

21. We think the most effective approach is to use prescriptive language only rarely. Consequently, we recommend that the Board:
 - (a) use prescriptive ‘shall’ language when a particular item of information is always essential to meet a particular disclosure objective; and.
 - (b) use the less prescriptive language ‘while not mandatory, the following may enable an entity to meet this objective’ to articulate the items of information.

22. This approach is consistent with the draft Guidance (see *September 2018 Board Agenda Paper 11A*) which already requires the Board to use *less prescriptive* language for the items of information.

23. We acknowledge, and intend, that this approach is likely to have significant consequences on the way preparers, auditors and other stakeholders approach disclosure of information. For the reasons described elsewhere in this paper, we think that those consequences will be beneficial in helping to address the disclosure problem.

24. We note that the next stage of the project will be to issue an Exposure Draft for stakeholders to comment on. Consequently, we think it is appropriate for the Board to expose an approach that has the best chance of making a real practical difference to the disclosure problem and that is different from the existing practice today. We believe this will:
 - (a) enable the Board to get the most benefit from the Targeted Standards-level Review of Disclosures project; while
 - (b) ensuring stakeholders have the opportunity to explore and comment on all potential consequences of the approach at a draft stage.

Question 1

Does the Board agree with the staff recommendation in paragraph 21?

Approach to staff analysis and recommendations in Agenda Papers 11B and 11C

25. Staff have taken the following approach to analysing the items of information in Agenda Papers 11B and 11C:
- (a) considered as a whole all items that, based on user feedback and other input, we understand would be effective in meeting each specific disclosure objective;
 - (b) considered whether any specific items of information should use prescriptive ‘shall’ language instead of *less* prescriptive language;
 - (c) provided additional analysis for specific items of information, where necessary, to help the Board make a decision; and
 - (d) provided examples of what some disclosures might look like applying the specific disclosure objectives and staff recommendations on the items of information.
26. The Board has previously considered stakeholder feedback about cost and other consequences in making decisions about the specific disclosure objectives. Consequently, we plan to only provide analysis about those consequences for specific items of information that stakeholders shared additional feedback on.