STAFF PAPER

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IASB® meeting

Project	**Disclosure Initiative: Targeted Standards-level Review of Disclosures**
Paper topic	Preparer fieldwork results—Guidance for the Board

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Purpose and structure of this paper

1. This paper summarises the preparer fieldwork findings on the proposed Guidance for the Board in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* (Exposure Draft) and asks the IASB whether it has any questions or comments related to those findings.

2. This paper is structured as follows:

   (a) Fieldwork findings—overview (paragraphs 3–15);

   (b) Audit and regulation (paragraphs 16–19);

   (c) Costs of application (paragraphs 20–21);

   (d) Users of financial statements (paragraphs 22–30);

   (e) Interaction of the proposals with materiality requirements (paragraphs 31–33); and

   (f) Other fieldwork findings (paragraphs 34–36).

Fieldwork findings—overview

3. Most participants supported the proposals for the Board to work closely with users of financial statements (users) and develop overall and specific disclosure objectives. Participants generally understood the proposed objectives. They said the objectives were helpful because they enabled entities to understand what information users want and why they want it—thereby helping them to perform better judgement about which information is material.

4. However, in light of the fieldwork, participants expressed a range of views on whether disclosure of the proposed items of information should be mandatory. Some participants agreed that, in most cases, disclosure of the proposed items of information should not be mandatory, some disagreed (see paragraphs 11–15 for alternative approaches suggested by some of these participants), and the remaining participants did not provide a conclusive view either way.

Participants that supported the proposed approach

5. Some participants welcomed the move away from prescriptive requirements to disclose particular items of information. This included many participants from the UK and both participants from South Africa. These participants thought the approach encouraged the use of judgement, enabled them to provide information that is relevant and entity-specific and, ultimately, resulted in more useful disclosures for users. For example, they described the approach as 'a positive step forward and an improvement' and said they 'appreciate the flexibility and think it enables us to tailor the disclosures to better address the needs of users'. One small company participant said they benefitted from 'not having to spend hours making sure that we are aligned with every single point'.

6. Of the participants providing this feedback:

   (a) Some had reconsidered their disclosure note in its entirety—starting with a blank page and considering how to most effectively meet the user needs described in the proposed disclosure objectives. Some of these participants had significantly restructured and/or changed the content of their note.

(b) Some had used the proposed disclosure objectives to ‘sense check’ their existing disclosures and consider whether any changes were needed. Some of these participants did not make significant changes to their disclosures. However, they nevertheless supported the approach because it gave them confidence that they were disclosing the right things and that the information would be useful to users.

7. A few of the participants who had identified improvements to their disclosures during the fieldwork said they intended to implement those improvements immediately—they would not wait for the project to be finalised. These participants were mostly in Europe, including several in the UK.

8. However, a few participants who agreed with the proposed approach said that:

(a) their support was contingent on the IASB including an explicit explanation, in each Standard, that the proposed items of information should not be applied like a checklist. Participants said that without such an explanation, auditors and regulators may prevent them from applying the proposed approach in the manner intended by the IASB.

(b) all stakeholders, including auditors, regulators, investors, and preparers, would need to agree to apply disclosure requirements in the manner intended. Participants agreed with the statement in the Basis for Conclusions on the Exposure Draft that all stakeholders would need to play their part if the proposed approach is to be successful.

Participants that did not support the proposed approach

9. Some participants did not support the proposed approach and would prefer the IASB to continue requiring entities to disclose particular items of information. This included most participants from Germany and some from the rest of Europe. The most prevalent concern expressed by these participants was that auditors and regulators would apply the items of information—including those described as ‘non-mandatory’—like a checklist (see paragraphs 16–19). These participants said they would need to disclose every item of information named in the proposals or justify why they had not done so. Consequently, they thought the proposed approach would:

(a) not lead to the change in behaviour envisaged by the IASB;

(b) increase costs; and

(c) fail to address the disclosure problem.

10. Participants that did not support the proposed approach also expressed concerns about:

(a) how to achieve compliance with objectives-based disclosure requirements. These participants were concerned that unless their disclosures met all needs of all users of financial statements, they could be accused of a failure to comply with objectives-based disclosure requirements. They said there are many different users and many different user needs, and it is the IASB's job to turn those needs into disclosure requirements;

(b) costs of applying the proposed approach (paragraphs 20–21);

(c) users of financial statements, including:

(i) whether the proposed approach would provide more useful information to users—including concerns about comparability between entities (paragraphs 22–25);

(ii) interactions between preparers and users (paragraphs 26–27); and

(iii) whether user information needs are adequately reflected in the proposals (paragraphs 28–30); and

(d) whether the project objectives could be achieved in a less disruptive way, for example, by strengthening the current materiality requirements (paragraphs 31–33).

Alternative suggestions

11. Some participants suggested that the IASB should include a minimum list of required items of information to satisfy each specific disclosure objective. Many of these participants said that such a list should contain less disclosure items than are currently required by IFRS Accounting Standards but more items than included as mandatory requirements in the proposals. We asked these participants how the IASB should

define such a list—what criteria would justify an item being mandatory? Participants generally did not give a specific answer to this question, although some said their proposed minimum list could be supplemented by a secondary list of encouraged disclosures or additional disclosures to be provided only in particular circumstances. A few said that a minimum list of required items should be provided for simple circumstances, with entities expected to apply judgement to determine what to disclose in more complex scenarios. Participants said that one of these hybrid approaches would:

(a) ensure comparability between entities while allowing for more entity-specific information to be disclosed, if material to users; and

(b) reduce the significant application challenges for preparers arising from the increased need to exercise judgement.

12. Conversely, a few participants suggested reducing the number of items of information or removing them altogether—i.e., relying only on the disclosure objectives. This would avoid stakeholders applying these items like a checklist.

13. Some participants suggested that the IASB supplement the proposed approach by including application guidance in each IFRS Standard to reinforce the message that judgement is required, or that further information might be required to satisfy the disclosure objectives. Similarly, a few participants encouraged the IASB to emphasise in each individual IFRS Standard the requirement to apply materiality when deciding what to disclose.[1]

14. A few participants thought the intended benefits of the proposals could be achieved in a less disruptive way—for example, by the IASB:

(a) developing educational materials to explain the thinking in the Exposure Draft and emphasise the need to apply materiality to disclosures; or

(b) strengthening the current materiality requirements (see also paragraphs 31–33).

[1] Paragraph 31 of IAS 1 *Presentation of Financial Statements* requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in an IFRS is insufficient to enable user understanding. This paragraph also specifies that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.

15. One participant said the IASB should use the proposed objectives to develop a 'better checklist' (an improved list of required disclosures that better addresses the needs of users than the current requirements).

Audit and regulation

16. As described in paragraph 9, many participants were concerned that auditors and regulators would apply the items of information—including those described as 'non-mandatory'—like a checklist, challenging preparers if an item of information is missing. Conversely, a few participants thought the proposals would force auditors and regulators away from a checklist approach and that this would be a good thing. This is because it would enable preparers to focus on preparing more meaningful disclosures for users rather than justifying the absence of immaterial items of information included in mandatory lists.

17. Some participants thought the proposed approach would result in greater auditor and regulator challenge of preparers' disclosure approaches and the judgements applied. Participants thought this would result in additional dialogue with auditors and regulators about how they meet the disclosure objectives—for example, participants expect to be challenged about which items of information are required to fulfil the overall and specific disclosure objectives in their circumstances, and why items of information are omitted. These participants also expected to have to spend time preparing additional audit documentation. Some of these participants thought the additional dialogue and documentation would not be useful and would add to the cost of preparing financial statements. Conversely, a few other participants thought that the additional dialogue and documentation would be beneficial and result in more useful disclosures.

18. A few participants, primarily banks and other financial institutions, said they are subject to strict regulatory financial reporting requirements in their jurisdictions, and that often they are required to fill out a template containing minimum prescribed disclosures. These participants thought regulators in such heavily regulated industries would be unable to change their approach to an objectives-based one. A few

participants also cited recent accounting scandals as a reason they thought auditors and regulators would be unwilling to change their approach.

19. A few fieldwork participants were able to involve their auditors in the fieldwork. These preparers provided mixed feedback, for example:

    (a) a few said they did not identify any additional audit challenges. For some this was because they did not make any significant changes to their disclosures. For others it was because they already apply materiality judgements when preparing their disclosures and justify those judgements to their auditors—these participants observed that, applying IAS 1, such judgements are already required and, thus, the need to discuss those judgements with auditors is not new.

    (b) a few identified aspects of the proposals for the two test cases where they had a different opinion to their auditor on whether a disclosure objective had been satisfied. These participants expected additional audit time and costs to resolve such differences. For example, see Agenda Paper 11D paragraph 61(b).

    (c) a few said their auditors were reluctant to move towards an objectives-based approach and would prefer a prescriptive list of disclosure requirements to assess compliance with.

Costs of application

20. Fieldwork participants provided mixed views about the likely costs of implementing the proposed approach:

    (a) some participants did not anticipate significant incremental costs because:

        (i) they already apply materiality when preparing their disclosures;

        (ii) they already capture all data necessary to apply the proposals for the two test Standards;

        (iii) they did not make any material changes to their disclosures applying the proposals for the two test Standards; and/or

        (iv) they would save time due to not having to work their way through a checklist.

(b) many participants anticipated initial costs in the first year of application that would reduce once the new approach became familiar. These costs included:

(i) coordination among various departments and management experts to apply the judgement required by the proposals;

(ii) updating reporting systems such as templates and IT tools used to gather information from subsidiaries;

(iii) updating internal control frameworks; and

(iv) updating digital tagging and reporting tools.

(c) some participants anticipated both initial and ongoing costs relating to:

(i) gathering information to facilitate the application of judgement. Participants said they would need to gather all possible disclosure information from subsidiary entities before being able to apply judgement and determine which information is material and therefore required to satisfy disclosure objectives. Many large group entity participants—particularly banks—said this would be a very significant cost (specific examples for fair value measurement information are included in Agenda Paper 11C);

(ii) additional dialogue with, and documentation for, auditors and regulators (see paragraphs 16–19).

(iii) increased resources to review disclosures at each period end, including time spent documenting how disclosures meet the overall and specific objectives; and

(iv) additional discussions about disclosure with those charged with governance.

21. A few participants said the benefits of the Guidance would not outweigh the costs, particularly if the entity is already applying materiality judgements to their disclosures.

Users of financial statements

Usefulness of disclosed information

22. Some participants said the proposed approach would result in more useful information for users, because:

    (a) the overall and specific disclosure objectives provide preparers with a helpful basis for disclosing the information that users require. These objectives enable participants to understand user needs and focus their efforts on identifying relevant information. The items of information provide a helpful guideline on how to satisfy the overall and specific disclosure objectives.

    (b) the move away from requirements to disclose particular items of information would help preparers to avoid disclosing irrelevant information and make disclosures more understandable to users.

23. However, some participants said they would make few changes to their disclosures applying the proposals and, consequently, questioned whether the costs of implementing the proposals would be justified by the benefits to users. Participants who made few changes to their disclosures generally did so for one of three reasons:

    (a) they already make good materiality judgements and thought their existing disclosures largely met the proposed objectives;

    (b) concerns about audit and regulation (see paragraphs 16–19)—these participants thought they needed to disclose all items of information named in the proposals, or were reluctant to remove or change their existing disclosures; or

    (c) they approached the fieldwork by mapping existing disclosures to the proposed objectives and considering any gaps. Many of these participants said their fieldwork outcomes might have been different if they did not have an existing note to start from.

24. Almost all banks and financial institutions and a few participants from other industries said the proposed approach is likely to lead to a lack of comparability between companies. This was primarily due to the possibility of different companies making

different judgements about how best to satisfy each disclosure objective. However, participants also said that:

(a) some preparers would use the proposed approach as an opportunity to disclose as little as possible—for example, if they do not wish to be transparent or disclose commercially sensitive information; and

(b) other preparers will apply the 'non-mandatory' items of information like a checklist and disclose as much as possible.

25. These participants were concerned about the lack of comparability because:

(a) it would limit the useability of information reported digitally. A few participants thought that implementing the Guidance would counteract recent efforts made to standardise financial statement information (e.g., the Primary Financial Statements project) and encourage the use of digital reporting; and

(b) they think users will ask companies for additional information for their comparative analysis or explanations for the exclusion of information disclosed by others. This would increase costs for both preparers and users.

Interactions between preparers and users

26. Some participants interpreted the proposed approach as requiring them to talk to their own users and disclose whatever information those users identified as necessary.[2] Some participants observed that there is a wide range of users with different needs and that it would be impossible to satisfy them all. A few added that trying to do so would result in boilerplate disclosures to cater for all possible user needs. A few participants thought that as soon as one company in an industry discloses a particular item then users would expect all other companies to do the same. Participants thought this would increase the amount of irrelevant information they would have to disclose.

27. However, some participants anticipated little change to the extent of dialogue they have with their users. A few participants said they already have extensive dialogue

[2] Paragraphs DG6 and DG8 of the Guidance for the Board proposes that the IASB will describe—in IFRS Accounting Standards—the overall and specific information needs of users of financial statements and require an entity to disclose information that meets *the described needs*. In addition, the *Conceptual Framework for Financial Reporting* explains the objective of general purpose financial reporting and describes the kinds of information that is useful to users.

with their users, or they are already publishing information users are interested in elsewhere in their Annual Report.

Whether user information needs are adequately reflected in the proposals

28. Specific feedback about each proposed disclosure objective for the two test cases is described in Agenda Papers 11C and 11D.

29. A few participants said the proposed descriptions of what users might do with the information provided to meet each specific disclosure objective are too generic. They suggested that the IASB should provide more detailed explanations. A few smaller, unlisted company participants said that some of these explanations are not relevant to unlisted companies.

30. A few participants said the user needs described in the Exposure Draft are too focussed on investors and do not take sufficient account of other primary users, such as creditors.

Interaction of the proposals with materiality requirements

31. Some participants raised questions about how the proposed approach interacts with the materiality requirements in paragraphs 29–31 of IAS 1. This included participants who said the proposed approach would have an insignificant effect on their disclosures because they already make good materiality judgements. Some thought the IASB should strengthen the current materiality requirements rather than requiring a whole new approach to disclosures. They said that:

    (a) proper application of materiality would have the same effect as the proposed approach, without the additional costs and time; and

    (b) the disclosure problem is caused by incorrect application of materiality rather than by the Standards. Consequently, these participants encouraged the IASB to reinforce materiality requirements rather than undertaking extensive standard-setting.

32. A few participants encouraged the IASB to include references to materiality throughout IFRS Accounting Standards rather than only as an overarching concept in

IAS 1. These participants thought referencing materiality in each IFRS Standard would prevent the current disclosure requirements being applied like a checklist and make clear that an entity should only disclose an item of information if it is qualitatively or quantitatively material.

33. One participant said that prohibiting the disclosure of immaterial information would be a simpler way to resolve the disclosure problem than the proposed approach.

Other fieldwork findings

34. A few participants said the IASB should not apply the Guidance to all IFRS Accounting Standards at once and instead suggested that if the IASB adopts the new approach it should do so gradually. For example, one participant said they would be able to deal with two standards a year being updated in line with the proposed approach, but not more. Conversely, a few participants said that because the proposed approach requires a new way of thinking, it would only be successful if it were applied across all IFRS Accounting Standards at the same time. These participants said it would be difficult to apply one disclosure approach to some areas of the financial statements and a different one to others.

35. A few participants said the IASB should consider how the proposed approach will interact with other aspects of the IFRS Foundation's work that they view as requiring the mandatory disclosure of items of information. Participants cited ESG disclosures and the Primary Financial Statements project as examples.

36. A Canadian participant questioned whether the proposals would eventually result in divergence between IFRS Accounting Standards and US GAAP, which might create difficulties for entities applying IFRS Accounting Standards who trade in the United States.

Question for the IASB
Does the IASB have any questions or comments about the fieldwork findings on the Guidance for the Board?