ISDA

International Accounting Standards Board,
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12th January 2022

Dear IASB,

Ref.: Invitation to comment – Exposure Draft ED/2021/3 Disclosure Requirements in IFRS Standards – A Pilot Approach – Proposed amendments to IFRS 13 and IAS 19

The International Swaps and Derivatives Association ("ISDA")[1] welcomes the opportunity to provide input on the above referenced Exposure Draft ('ED') issued by the International Accounting Standards Board ("the Board") on 25 March 2021.

Our comments are confined to those aspects of the ED which relate to IFRS 13. We have not commented on the ED's proposals as they relate to IAS 19.

Our members broadly support the Board's work in undertaking a targeted project to review the approach towards disclosures, with the aim being to improve the effectiveness of disclosures in financial statements and reducing the current disclosure burden on preparers. However, with respect to how the ED's proposals relate to IFRS 13, our members are not convinced that replacing prescriptive disclosure requirements with overall and specific disclosure objectives, will lead to more decision-useful information. In particular, for IFRS 13, it would be highly problematic to try and retrospectively overlay a disclosure objective. Our members' concerns are such that while they support setting a clear disclosure objective for new standards, they do not support the application of the approach proposed by the ED specifically to IFRS 13.

Our members' concerns with the proposals include:

- Our members support that for new IFRS there should be a clear disclosure objective and note that this has worked well for the IBOR reform disclosures. However, when applied to existing IFRS such as IFRS 13, where practice is established our members believe that implementing the proposals could lead to a significant lack of comparability between entities and periods. In addition, the disclosures are familiar to users and the proposals could remove information which is useful to them. Overall, we think this is best applied to new standards.

- The practical challenge of being able to deliver the existing IFRS 13 disclosures is significant, e.g., it typically took around two years for large banks with complex trade capture, risk management and financial reporting systems such as those of our members, to develop new fair value related disclosures. Also, the disclosure requirements must form a stable platform to enable preparers to implement and

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 960 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

maintain robust processes and controls over the information being gathered. As a result, it will be necessary for preparers to continue to produce the information needed to populate the full suite of IFRS 13 disclosures as if they were being reported, even if after applying judgement, they may not be required. They must also produce the information for the new non-mandatory disclosures proposed by the ED. As a result, our members believe that the proposals will not lead to any operational simplification and will actually increase the disclosure burden for preparers.

- The proposed approach, as well as requiring preparers to apply judgement when selecting which disclosures to provide, will increase the need for auditors and regulators to apply judgement when assessing preparers' disclosures. Given entities' different circumstances, our members believe it will be more difficult for auditors and regulators to promote consistent application of the requirements within individual entities over time and between entities.

In summary, our members believe that the proposals in the ED could result in a step reduction in comparability, lead to operational and control difficulties for preparers in making the judgements required provide no reduction in the reporting burden for preparers, and challenge regulators' and auditors' efforts to encourage consistent application. In light of these concerns our members do not support the approach proposed in the ED.

Should the IASB decide to proceed with the approach, our members believe that additional guidance would be required, to address factors such as comparability, consistency between periods and specificity to the entity's circumstances, and to help ensure the level of disclosure is appropriate.

As noted above, the responses in this letter focus only on the implications of the proposals in the ED for the IFRS 13 disclosures, given the importance of IFRS 13 to our members. Consequently, the responses below to questions 1 to 11 in the ED are provided in the context of our members' fundamental concerns with the proposed approach. We have not responded to questions 12 to 15.

We look forward to supporting the Foundation as its work progresses in this area. If it would be helpful, we would be happy to discuss in further detail the points raised.

Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours sincerely,

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Appendix attached

Appendix – Responses to specific questions

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?

For (a)

- Our members support in principle the proposal to ensure there is a clear disclosure objective articulated for each IFRS. This approach was applied in the context of the IBOR reform amendments and related disclosures, which our members believe has worked reasonably well.

- However, our members have some significant reservations, if this approach is extended to standards for which the disclosure requirements are already well established, such as IFRS 13. A key concern is that depending on how the disclosure objective is defined, comparability could be a problem both between entities and between periods. The IASB should consider the risk posed to comparability and how best to mitigate this. If the IASB proceeds with adding new disclosure objectives for existing standards, further application guidance describing what specific disclosures are required for the disclosure objective to be met, may be necessary to support the consistency and comparability of the disclosures.

- There is a risk that in applying approach to entities' existing disclosures, they become amalgamated and orientated towards meeting the disclosure objective at a particular point in time. As a result, aspects of an entity's disclosures that cover other important requirements of a standard such as IFRS 13, but that are not fully in line with the disclosure objective, could be lost as a result. This may be information that users have become accustomed to receiving and could be useful over time, even if it does not always directly align with the proposed disclosure objective, as further described in our response below to (b). This suggests that in practice it may be easier to apply the approach to new accounting standards. Alternatively, for existing accounting standards the IASB might define the disclosure objective as one where the full range of existing disclosures remain (subject to materiality as normal) with a supplementary disclosure objective for areas where additional focus is required.

For (b)

- The use of disclosure objectives is described in the ED as having the potential to encourage more tailored disclosures and reduce the disclosure overload. However, the proposed change to the use of specific disclosure objectives to convey mandatory requirements could represent a significant change for preparers, auditors and regulators in how they assess the adequacy of disclosures. In practice, it may be difficult to determine whether the objective has been met and our members are concerned that a new disclosure objective may not be understood in the same way by all parties. For IFRS 13, entities may apply judgement to

select which disclosures to provide, but this may not meet regulators' expectations for what should be disclosed, particularly since in our members' experience regulators tend to want more rather than less information. This could result in disclosures initially reducing upon implementation of the disclosure objective and then later needing to be expanded to address regulatory needs. To mitigate the risk of this type of confusion arising, it is important that the final proposals for a new disclosure objective fully incorporate regulators' expectations for how the objective ought to be applied and to work in practice.

- Having a clear disclosure objective can help focus the information provided on the issues of most interest at a particular point in time. However, if applying the disclosure objective results in information being omitted that would otherwise have provided users with information on how the entity's position has evolved over time, this could be a problem. For example, the quantified sensitivity analysis of unobservable inputs required by IFRS 13.93(h)(ii)) may not represent a focus area in all periods. A disclosure objective which covers only focus areas in each period could result in such disclosures being excluded. Over time, being able to see how the sensitivities to key unobservable inputs have changed can provide users with potentially helpful insights into how these exposures have evolved. This is only possible where information is disclosed consistently each period, even if it is not always an area of particular focus. For an accounting standard such as IFRS 13, which covers all aspects of fair value measurement and presently requires wide-ranging disclosures, it may therefore be appropriate for one of the disclosure objectives to recognise that it is often helpful to provide the same information in each period to allow the type of comparison to be built up described above, allowing users to gain an impression of the entity's exposure to fair values over a longer period of time. Such a disclosure objective could be complemented by a secondary objective to provide additional insights or emphasis on focus areas as and when they arise.

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?

For (a)

- Having fewer uniform mandatory disclosures may lead to reduced comparability. While today there may be diverse approaches used by entities to comply with many of the key disclosure requirements (for example, the sensitivity disclosures required by paragraph

93(h) of IFRS 13 for fair value measurements categorised within Level 3 of the fair value hierarchy), there is broad consistency in the type of information provided. Under the proposed approach, entities may reach different conclusions about which information to provide, as well as the manner in which it is presented or disclosed.

- Since comparability is often an expectation of preparers, auditors, regulators and users of financial statements, if the Board's intention is for tailored disclosures to be prioritised over comparability, members believe that the risk of reduced comparability should be acknowledged. That is, members believe additional guidance is necessary to understand the Board's expectations such that the relative importance of factors, such as comparability, consistency between periods and specificity to the entity's circumstances, are appropriately balanced.

- A significant investment of time and money has been made by preparers to meet the existing disclosure requirements of IFRS standards such as IFRS 13. Financial reporting systems and processes have been specifically developed to deliver the information required. It has typically taken around two years for large banks with complex trade capture, risk management and financial reporting systems such as those of our members, to develop new fair value related disclosures. If the disclosures were reduced, one outcome would be for the existing systems and processes to cease, which would then be very difficult for entities to restart in future at short notice if the disclosures were required again. This reflects the fact that there is a lead time for entities to put in place the operational processes to produce the disclosures which should not be underestimated. Furthermore, once the processes cease and the disclosures are not provided, prior period data will soon become unavailable, since the data will not have been updated. Members believe that a better approach is for the population of disclosures required for entities to meet the objective to remain mandatory and therefore be stable over time. Whilst there may be scope for disclosures to be enhanced as circumstances arise, this would be a secondary disclosure objective that builds on a stable platform of recurring disclosures.

- The selection by the entity of what to disclose would be based on what is likely to be decision-useful information for users of the accounts. Concerns about comparability, would require preparers to maintain an ongoing dialogue with user groups to ensure that comparability is not compromised, and that decision useful information is provided. Our members note that presently, dialogue of this nature takes place through their investor relations departments and the information provided via the quarterly calls with equity analysts, is revised accordingly. Our members agree that it is helpful for such a dialogue to develop and for this to influence the information included in the financial statements. However, the proposed approach is expected to be difficult to apply in practice as it would require preparers to make their best efforts to understand what is useful for their diverse user groups and then apply judgement to decide what to disclose. In addition, the auditors and regulators may have different priorities to other users such as investors and analysts. Our members therefore recommend that a longer period of road testing involving all parties is undertaken to determine whether it is operationally possible to implement the proposals.

- Since the proposals would provide for greater flexibility and may lead to less consistency and comparability, it is not clear how the proposals in the ED would affect the IFRS taxonomy. The judgements necessary to decide what information is important do not presently fit easily into how the information required by the IFRS taxonomy is populated and maintained.

For (b)

- Members believe that, under the proposed approach, enforcement could be more difficult with the increased judgement needed and, as a consequence, the role of the auditor in agreeing what disclosures are provided may be of greater importance. For example, if preparers wanted to disclose as little information as they felt necessary to meet the minimum requirements, it may be challenging for auditors to require greater disclosure if there are few mandatory requirements, and what is disclosed depends on the judgement of the entity.

- In addition, members believe the views of regulators would become more important to preparers and auditors under the proposed approach, as noted in our response to the question above. For example, regulators' expectations about the importance of certain information in the financial statements (e.g., were they to object to preparers excluding some non-mandatory information), may be seen as providing additional guidance for preparers and auditors on how to apply the disclosure requirements.

- Similar to the alternative view expressed in the Basis for Conclusions on the ED, the disclosure overload could, potentially, be addressed in part by preparers being more rigorous in their application of materiality, rather than the demotion of certain items of information from "shall" to "may." It could also be addressed by helping users to understand the importance (both current and potential) of disclosures that they may not have previously appreciated.

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.

For (a)

- Members agree with the use of prescriptive language where information is required. This provides clarity for preparers, auditors, regulators and users of financial statements.

For (b)

- Members are concerned that moving too far away from a checklist approach to disclosures may lead to a 'race to the bottom' mentality in which there are opportunities to avoid disclosing anything which is not mandated or could otherwise lead to 'cherry picking' the preferred information to disclose. Since it will involve significant judgement, there is a risk that, without further application guidance, preparers may either choose to err on the side of caution and simply default to including all the disclosures, or they could decide to provide only the mandatory information. Members believe that either of those outcomes could negate any potential benefit of the proposed approach and providing only mandatory information could lead to the omission of relevant, or even key, decision-useful information.

For (c)

- The approach has the potential to help provide additional decision useful information by allowing entities to place greater emphasis on those disclosures which are of particular importance or relevance. However, there is also the risk of a disclosure objective being framed such that decision-useful information is lost as discussed elsewhere in this response.

For (d)

- For many specific disclosure objectives (e.g., proposed paragraph 111 of IFRS 13), no required information is proposed, meaning everything is only suggested. While this provides preparers with flexibility to tailor their disclosures, few illustrative examples have so far been provided to assist preparers, auditors and regulators when applying this judgement. For example, under the proposed approach, an entity would need to apply materiality and, in light of the objective, judge whether they have met the required disclosure objective, which could entail excluding some of the "may" disclosures that are listed. This is subjective and entities in the same sector or with similar assets or liabilities could reach different conclusions. It may also be difficult to audit and enforce, particularly if there are few, if any, mandatory requirements. While illustrative examples may have been included in the ED that indicate what an entity might disclose, none illustrate how an entity might judge what to exclude.

For (e)

- Entities would face additional costs through a number of operational challenges that may arise. For example, in some periods, it may not be necessary to disclose certain information to meet the objectives, but it may be necessary in other periods. As discussed above, regardless of whether it judges the information necessary to include in its financial

statements in any particular reporting period, the proposed approach may require entities to track all such information on an ongoing basis.

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?

- The proposed wording strongly emphasises that certain information is not mandatory to be disclosed and it is, therefore, clear that entities will need to use judgement.

- Members understand from the Basis for Conclusions of the ED that the intention is for these items of information to be considered useful examples that entities would likely want to include, to meet the specific disclosure objective. However, this is not clear from the language used in the proposed amendments and members think that the wording could be made clearer. Possible alternative language includes the following:

    - "*Items of information that might be appropriate to meet the objective include, but are not limited to, the following…*" – This language follows similar wording used in proposed paragraph 116 of IFRS 13.
    - "*The following are (non-exhaustive) examples of how entities may meet the objective…*" – This type of language would make it clearer that these examples are meant to be considered by preparers in determining what is appropriate to disclose to meet the specific objective but are not determinative for what should be disclosed.
    - "*There is a rebuttable presumption that such information would meet the objective …*" - Using a "rebuttable presumption" notion would put the onus on preparers to justify why certain items of information are not included. Therefore, it may be more appropriate for those disclosures the Board believes will often be needed to meet the specific objective.

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).

Our members have no further comments to those already addressed above.

Proposed amendments to IFRS 13 *Fair Value Measurement* applying the proposed Guidance

Assets and liabilities measured at fair value in the statement of financial position after initial recognition

Question 6—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?

- The proposed overall disclosure objective for recognised fair value measurements is broader than the current objective in paragraph 91 of IFRS 13. Our members agree that it provides helpful context for the disclosures as a whole. Our members also agree with not restricting the focus of the disclosure objective to only Level 3 fair value measurements, although they note that the valuation uncertainty associated with Level 2 instruments is, by comparison, minimal. This is consistent with the Board's observation in paragraphs BC65 and BC69 of the Basis for Conclusions to the ED, about the measurement uncertainty and subjectivity that can exist for some fair value measurements categorised within Level 2, not only those categorised within Level 3. However, our members consider that the current focus of the IFRS 13 disclosures on Level 3 is appropriate and it would be a mistake to require excessive disclosures for Level 2 instruments. Therefore, any additional disclosure associated with Level 2 instruments should be in proportion to the valuation uncertainty, rather than requiring disclosure equivalent to that for Level 3 items.

- However, members note the guidance proposed in paragraph 101 excludes factors that may have been helpful to preparers, auditors and regulators in applying the disclosure objective in practice (e.g., the degree of emphasis, level of aggregation or disaggregation). Members believe these and some of the considerations in paragraphs BC64-BC73 of the Basis for Conclusions to the ED (e.g., the relevance of information about material fair value measurements, the measurement uncertainty and subjectivity) would provide helpful guidance and should be included in paragraph 101.

Question 7—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.

- Our members agree with most of the proposed specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition. However, our members believe that some of the proposed specific disclosures should be reconsidered. In particular, the suggested disclosure that requires a roll-forward table of Level 2 items would, in our view, result in excessive information that is of very little value to users of the accounts. The current production of the Level 3 roll-forward disclosure is a very manual process, it is not used by preparers for internal reporting and members believe it to be of only limited interest to users of the financial statements. To repeat this exercise to include the many hundreds and thousands of derivatives and cash instruments comprising the Level 2 population that many of our members have, would represent a very significant additional operational and implementation challenge. This would take many months to complete at significant cost and with little discernible information benefit to users, since the vast majority of the change in value arises from fully observable inputs. Members suggest there would be more merit in enhancing the existing disclosure in relation to those Level 2 items with some unobservable inputs, e.g., that are on the border between Level 2 and Level 3 but currently fall into Level 2 because the Level 3 input is sufficiently small. This could be supplemented where necessary by an explanation of the most significant movements of the Level 3 inputs that affect the Level 2 items. This might not be a componentised disaggregation of the P&L to that which relates to Level 3 inputs affecting Level 2 items (as this could be extremely burdensome to prepare) but rather a sensitivity analysis similar to that provided under IFRS 13 paragraph 93(h)(ii) for fully Level 3 items, where the variability in these Level 3 inputs for Level 2 instruments would be quantified where it has the potential to be material. This approach could address the concerns that users expressed as described in BC69, that important information in relation to Level 3 inputs on Level 2 items is not being provided.

- Our members also view the change from providing quantitative information on unobservable parameters in the current IFRS 13.93d to providing quantitative information on significant parameters as required by paragraph 110(c) in the ED, to be a move to providing less useful information. Our members anticipate that they would end up disclosing equity prices, benchmark rates, credit spreads which are largely observable in financial markets. It will also make this disclosure much longer than currently, thereby obscuring the more useful and relevant information.

- Members believe it may be difficult to assess whether the proposed approach will meet the Board's objective in that members are concerned there may be a risk that less information will be disclosed as few, or no, items of information would be mandatory. Furthermore, members believe it is less likely entities would add new disclosures that weren't previously present unless they are mandatory.

    - As an example, to meet the proposed specific disclosure objective in paragraph 107, entities would be subject to one mandatory requirement (that applies in rare circumstances) and the non-mandatory items of information proposed in paragraph 110. Applying a checklist approach, an entity may result in no information being disclosed. However, since the objective would be mandatory under the new approach, the entity would need to use significant judgement to decide what information should be included. Entities may choose to include some, but not all, of the information it has previously disclosed, rather than revising or developing a new tailored disclosure to meet the objective.
    - Another example is the specific disclosure object in paragraph 111, which has no mandatory disclosure requirements.

- In general, members believe that if more information were not mandatory then in theory there could be less costs involved. However, as discussed in our response to Question 3, members believe that entities may continue to incur costs to maintain information that may not need to be disclosed in every period. In addition, there could be additional cost on adoption of the proposals to compile information that has not previously been disclosed. Also, members expect that the financial regulators will start with the view that for a large bank all mandatory and non-mandatory items will be required and therefore this proposal greatly increases the extent and therefore costs of disclosure. Even with the additional budget that our member banks will allocate to producing the disclosures, it will be very difficult to produce in the quarterly reporting timelines, which are already very challenging.

- Members note that the proposed transition requirements would require the preparation of comparatives upon adoption. While this may not be burdensome to preparers that are able to reduce their disclosures, the proposed requirements might require entities to disclose different or new information. This might include, for example, the proposed changes from sensitivity disclosures to reasonably possible fair value measurements and the non-mandatory disclosure of a reconciliation of changes for fair value measurements categorised within Level 2 of the fair value hierarchy. Since entities may need to make substantial changes to systems to collate such information on an ongoing basis, members encourage the Board to consider this when determining the effective date and transition requirements and suggest that at least two years will be required to implement the new requirements.

Question 8—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?

- Subject to the following comments, members agree that these items of information should remain mandatory:

  - As currently drafted, the mandatory requirement to provide a reconciliation as proposed in paragraph 116 would apply to all fair value measurements categorised within Level 3. While this requirement is consistent with that currently required by paragraph 93 of IFRS 13, members understand (from paragraphs BC67-BC70 of the ED) that users consider that this information was too detailed for what they considered to be immaterial fair value measurements. The ED therefore proposes to eliminate detail which is not significant, including disclosure of immaterial fair value measurements. To better align with this intention, members encourage the Board to review the paragraph 116 disclosure requirement.

- Subject to the following comments, members agree with the proposed non-mandatory items of information:

  - Members believe the disclosure of inseparable third-party credit enhancements proposed in paragraph 106(b) should be a mandatory disclosure in situations where it is applicable (i.e., where a liability is issued with an inseparable third-party credit enhancement and is measured at fair value), subject to materiality.

  - Members agree with the Board's observations that the disclosures proposed in paragraph 113 should focus on measurement uncertainty. However, within proposed paragraph 113, none of the items of information are mandatory. Entities may, therefore, need to apply significant judgement to determine how to meet the specific disclosure objective proposed in paragraph 111. Members therefore believe that additional application guidance may be helpful.

  - Members agree that there is diversity in practice in the way in which entities perform a sensitivity analysis for changes in significant unobservable inputs for Level 3 fair value measurements of financial instruments. As a result, the disclosures are often not comparable either between entities or across industries and the usefulness of the sensitivity disclosure requirements (quantitative and qualitative) for the effect of unobservable inputs on Level 3 measurements has often been criticised because of the generic nature of the information disclosed by preparers.

- While non-mandatory, the proposed disclosure in paragraph 113(a) would require an entity to identify whether a reasonably possible change would have resulted in a significantly higher or lower fair value measurement. That paragraph does not indicate how an entity would judge whether a change is significant but our members are comfortable making such a judgement using their existing tools and experience.

- The disclosures proposed in paragraph 117(a) cover drivers of change for fair value measurements not categorised within Level 3 of the fair value hierarchy. Members understand (from paragraphs BC67 to BC70 of the ED) that some users want more information on material fair value measurements categorised within Level 2 of the fair value hierarchy and the Board intended to use this paragraph to address that need. As drafted, members are concerned that preparers may interpret this non-mandatory disclosure as an 'all or nothing' disclosure for those items within Levels 1 and/or 2. To better align with the Board's intention, members believe it should be targeted at fair value measurements with material unobservable valuation inputs and, to ensure such information is disclosed, this information should be mandatory for fair value measurements that include significant Level 3 inputs that are otherwise included within Level 2. We note above our members' reservations about a roll forward for instruments outside Level 3, but if the requirement is part of the final amendments, then the information in BC 96 should be included in the standard to make it clear that the disclosure is only required for those instruments that are close to Level 3.

- Proposed paragraph 117(c) addresses the need for entities to have a policy for determining when transfers between levels within the fair value hierarchy have occurred and is generally consistent with paragraph 95 of IFRS 13. However, the proposed requirements are solely for the non-mandatory disclosure of such a policy. Since the requirement to have a policy for transfers is not included elsewhere in IFRS 13, the proposed revisions would remove the requirements to: (a) determine and consistently follow a policy for transfers between levels of the hierarchy; and (b) ensure the policy about the timing of recognising transfers is the same for transfers into the levels as for transfers out of the levels. Members do not believe that was the Board's intention and would recommend the Board should either revise proposed paragraph 117(c) to include this information or add a new paragraph to IFRS 13 to specify the requirement to have such a policy.

Assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

Question 9—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?

- Subject to our response to Question 10, our members agree with the proposed specific disclosure objective.

Question 10—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?

- For (a), members agree.

- For (b), members note that the proposed non-mandatory requirements in paragraph 121 of the ED are consistent with those proposed for other disclosure objectives. However, no examples have been provided in paragraph 121 to assist entities in determining the type of information that might need to be disclosed to meet the disclosure objective in relation to disclosures of fair value, nor are there any proposed illustrative examples to address the proposals in paragraph 120-121 of the ED. Members believe further guidance and illustrative examples would be helpful to support consistent application of the proposed requirements.

Other

Question 11—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?

Consistency with disclosure requirements in other standards for fair value measured in accordance with IFRS 13 after initial recognition:

- The proposed amendments include changes to the requirements in IAS 34 Interim Financial Reporting. The fair value disclosures can be onerous for preparers and represent a substantial burden on an interim basis which may not provide useful information to users of the accounts. Therefore, members support the Board's proposal to reduce disclosure overload in interim periods where the IFRS 13 disclosures are referenced in IAS 34. However, it would also be helpful if it were acknowledged as reasonable for entities that choose to make non mandatory disclosures at year end, to make a different decision for interim financial statements.

- The proposals will create a difference between US GAAP reporting entities versus their IFRS peers. IFRS 13 was a joint project between the IASB and the FASB and there is currently consistency and comparability as a result. With the IASB going down a different route on IFRS 13 disclosures then comparability will suffer as a result.

- After IFRS 13 was issued, the Board amended the disclosure requirements in IAS 36 Impairment of Assets to ensure consistency with those in IFRS 13 when recoverable amount is measured at fair value less costs of disposal. The ED does not include proposed amendments to IAS 36. Members encourage the Board to ensure continued consistency between IFRS 13 and IAS 36 for fair value measurement disclosures.