leadership beyond finance

January 12, 2022

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

Re: ED 2021/3 Disclosure Requirements in IFRS Standards—A Pilot Approach

Dear Sir / Madam:

The Committee on Corporate Reporting (CCR) of Financial Executives International Canada (FEI Canada) is pleased to respond to the invitation for comment on the *ED 2021/3 Disclosure Requirements in IFRS Standards—A Pilot Approach* issued by the IFRS Foundation.

FEI Canada is the all-industry professional membership association for senior financial executives. With 12 chapters and over 1,600 members, FEI Canada provides professional development, networking opportunities, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

CCR is one of several thought leadership committees of FEI Canada. CCR is devoted to improving the awareness of issues and educating FEI members on the implications of the issues it addresses and is focused on continually improving the standards and regulations impacting corporate reporting.

The CCR recognizes the importance of the 'disclosure problem' that is identified in the exposure draft and finds some merit in the development of objectives-based disclosure requirements. However, we believe the current proposal may lead to a further reduction in the quality of disclosures and reduce comparability between issuers.

Disclosure Objectives

Specifically, we believe that use of overall disclosure objectives may be helpful to preparers as they make judgments about the information that is required to be disclosed under a particular standard, insofar as those objectives are sufficiently detailed to provide additional clarity beyond what might be more obvious from the specific requirements that are outlined in that standard. Our review of the example guidance provided for IFRS 13 and IAS 19 leads us to believe that these objectives are not sufficiently detailed to significantly impact a preparers' ability to improve upon their disclosures. In addition, allowing for this level of judgment will create differences and a lack of comparability across issuers. As comparability has been a strong focus for investors, we question whether the current proposal will lead to the desired outcome.

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Judgment and the Application of Materiality

Overall, we believe that the disclosure problem is due to the challenges faced by preparers with respect to the application of judgment rather than with respect to the prescriptive nature of the current disclosure requirements.

Different organizations approach disclosure in different ways; some may apply materiality rigidly, only disclosing information that is deemed to provide incremental value to users; others look at disclosure from a more risk-based approach presenting all of the items they see within a particular standard – the 'checklist approach', and thereby removing the application of judgment from the process.

As a result, we find that the proposed approach is unlikely to significantly improve the disclosures of any group of preparers. The inclusion of non-mandatory guidance that 'may enable an entity to meet the disclosure objective' introduces further subjectivity and judgment into the disclosure process and is likely to only increase the challenges faced by those preparing disclosures. In fact, many preparers are likely to identify the 'non-mandatory' items and simply exclude these items from their external disclosures. On the other extreme, preparers following the checklist approach may include all non-mandatory items, which adds additional and unnecessary disclosures for these organizations.

We do not believe the disclosure problem will be resolved by changing the disclosure requirements as we believe the issue is user-based and will continue, regardless of whether new disclosure requirements are introduced.

Recommended Approach

We believe that when taken as a whole, IFRS Standards already provide a sufficient basis to allow skilled preparers to determine what disclosures are appropriate. As a result, we find that the Board should take actions within the standards to refer readers to IAS 1 and to clarify that the application of materiality is required in order to produce meaningful financial statements.

Further, we suggest that if there are disclosures within a particular standard that the Board considers to be mandatory in all circumstances that these be clearly identified. Other disclosures that are only required where an entity has a specific accounting matter or a balance that is sufficiently material should be identified separately within the standard with a specific reference to IAS 1 and a comment that these disclosures are subject to the materiality of those items with respect to the financial statements when taken as a whole. This will help ensure that immaterial information does not obscure the more material elements of the financial statements.

The CCR has appreciated the opportunity to comment on this important exposure draft.

Sincerely,

CArsenault

Celine Arsenault
Chair – Committee on Corporate Reporting
FEI Canada

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