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International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members,

RESPONSE TO EXPOSURE DRAFT – DISCLOSURE REQUIREMENTS IN IFRS STANDARDS – A PILOT APPROACH (PROPOSED AMENDMENTS TO IFRS 13 AND IAS 19) ("ED")

For this ED, ISCA sought views from its members through a six-month public consultation and from the ISCA Financial Reporting Committee which comprises experienced technical professionals from audit firms, preparers of financial statements and other stakeholders.

We are appreciative of the Board's ongoing efforts under the Disclosure Initiative as financial statements disclosures are integral in providing useful financial information to relevant stakeholders for their decision-making purposes.

For this ED, we are supportive of its objectives to improve (i) how the Board would develop disclosure requirements and (ii) the relevance of disclosures. The inclusion of disclosure objectives which describe the information needs of users of financial statements are helpful in providing context for the preparers to rationalise the inclusion/exclusion of certain information in the financial statements. In addition, the new approach towards financial statements disclosures, being less prescriptive, would encourage preparers to disclose more entity-specific information and discourage boilerplate disclosures.

More importantly, we feel that the Board has, through this ED, communicated an important message – preparers are empowered to exercise judgement to determine what should be disclosed in the financial statements. This is a step in the right direction to start addressing the disclosure issues in IFRS financial statements and we believe the role of professional accountants as preparers of financial statements will become more significant going forward.

Notwithstanding the above, we have some concerns which we set out below for your consideration.

1. Concerns regarding the new proposed approach towards financial statements disclosures

(i) Application challenges for preparers

Under the new approach, the onus is on the preparers to constantly assess and apply judgement to provide appropriate disclosures in the financial statements. This will be challenging for preparers due to the following reasons:

- It will be difficult for preparers to comprehensively determine and justify that the information disclosed will meet the stated objectives and needs of the users of financial statements due to (i) inherent differences in perspectives between preparers and users of financial statements; and (ii) inherent differences in information required by different users of financial statements (e.g. equity investors, banks, analysts).

- Information needs of users of financial statements can vary over time and preparers may need to regularly change their accounting systems and processes to capture the required information in order to ensure the continuing relevance of disclosures in the financial statements. As a result, preparers may have to incur costs to keep up with the changes.

- Preparers will need to expend more time and effort to assess and rationalise the inclusion/exclusion of certain disclosures from the financial statements year on year. At the same time, they will also need to properly document the assessments made for internal control and audit purposes. The consequence could be that preparers find this a burdensome process.

(ii) May not result in significant changes from current practice

In addition to the application challenges set out in (i) above, some preparers may err on the side of caution and continue providing the same disclosures as before. The other possible scenario is that some preparers may provide even more disclosures than before by using the list of non-mandatory examples in the proposed standard as a “new checklist” even if the information is not material to the entity. This would go against the Board’s expectations set out in paragraph BC190 of the Basis for Conclusions that the new approach would make it difficult for preparers to apply like a checklist. This is because there is little perceived risk in including more non-material information but potentially more significant implications if material information were to be omitted (whether intentionally or inadvertently).

To address the above concerns in (i) and (ii), we would like to suggest that the Board considers the following:

- Develop relevant guidance materials to aid preparers in addressing the application challenges; and
- Emphasise to preparers in the Board's communications and outreach activities that maintaining the current approach and mindset towards financial statements disclosures would not be in the spirit of the Disclosure Initiative as a whole and encourage them to embrace the change.

(iii) <u>More challenging to review financial statements disclosures and enforce the new disclosure requirements</u>

Currently, auditors and regulators can determine whether a preparer has disclosed specific items required by a IFRS Standard that are material for the preparer's financial statements. As the Board has introduced a more flexible approach towards disclosures which involves more management judgement, it will be more challenging for auditors and regulators to assess whether a preparer has met the disclosure objectives.

(iv) <u>Comparability may be impaired</u>

Comparability among preparers may be impaired under the new approach since different preparers are able to provide different types of information to meet the same disclosure objectives. As stated in paragraph AV14 of the Basis for Conclusions, if less consistent information is provided, this may also increase the costs for users by necessitating additional efforts to customise screening and analysis.

(v) <u>Interplay of materiality concept and disclosure objectives is not clearly explained</u>

The information required by users of financial statements (i.e. as reflected in the proposed disclosure objectives) might not necessarily be the same as the information that could reasonably be expected to influence the decisions if omitted, misstated or obscured (i.e. as embodied in the materiality concept). In other words, it is possible that (i) certain information that users require may not be material; or (ii) certain material information may not be required by the users. Hence, we would suggest the Board to provide guidance to aid preparers in more effectively applying materiality judgement around financial statements disclosures.

(vi) <u>Need to upkeep the overall and specific disclosure objectives to ensure that these remain relevant to users of financial statements</u>

As shared earlier, disclosure objectives describing the information needs of users of financial statements provide helpful context for the preparers to making judgements regarding financial statements disclosures. Hence, we agree that it is important for the Board to spend more time early in the standard-setting process to understand and articulate the information needs of the users of financial statements.

Information needs of users of financial statements can vary over time. Hence, the Board would need to constantly review and update the disclosure objectives to cater to changing information needs of users of financial statements as well as changing macroeconomic conditions. This may mean setting aside significant resources for such reviews and updates over the entire suite of IFRS Standards.

(vii) <u>Need to consider a practical timeframe for the introduction of the new approach</u>

The proposed approach represents a drastic change from the current way of disclosing information in the financial statements. If the Board were to implement the new approach across the entire suite of IFRS Standards, the Board may wish to consider a practical timeframe to implement the changes so that preparers would have time to prepare for the changes.

2. <u>Concerns regarding the proposed disclosure requirements in IFRS 13 and IAS 19</u>

(i) <u>Concerns with disclosing reasonably possible alternative fair value measurements (as proposed in paragraphs 111 to 113 of IFRS 13)</u>

In practice, preparers will use reasonably possible alternative fair value measurements in assessing the appropriateness of fair values recognised in the financial statements. This approach will also be deliberated by management.

However, mandating the disclosures of the range of reasonably possible alternative fair value measurements in the financial statements may confuse the users of financial statements (instead of providing more clarity). As a result, the users may question (i) the reliability of the fair value amounts recognised in the financial statements given that many reasonably possible alternative fair value measurements may be available; (ii) why certain reasonably possible alternative fair value measurements have not been used by the entity in determining the fair values recognised in the financial statements.

Should you require any further clarification, please feel free to contact myself or Ms Felicia Tay or Ms Jezz Chew, via email at waigeat.kang@isca.org.sg or felicia.tay@isca.org.sg or jezz.chew@isca.org.sg.

Yours faithfully,

Mr Wai Geat, KANG
Director
Professional Standards Division