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International Accounting Standards Board
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London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/ Madam

SAICA SUBMISSION ON ED/2021/3 – *DISCLOSURE REQUIREMENTS IN IFRS STANDARDS* – A PILOT APPROACH: PROPOSED AMENDMENTS TO IFRS 13 AND IAS 19

In response to your request for comments on ED/2021/3 – *Disclosure Requirements in IFRS Standards* – A Pilot Approach: Proposed amendments to IFRS 13 and IAS 19, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji	**Bongeka Nodada**
Chairperson: APC	**Project Director: Financial Reporting Standards**

GENERAL COMMENTS

We welcome and support the International Accounting Standards Board's (IASB or Board) Exposure Draft (ED) for developing disclosure requirements in IFRS Standards. However, we are concerned on whether management of entities, auditors and regulators are well equipped and ready to apply the specific disclosure objectives.

Our concerns also relate to the application of the judgemental measures concerned and on how preparers will manage such proposed measures, including how auditors will review such judgements.

Our specific comments on the ED are set out below.

SPECIFIC COMMENTS

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?

We agree with the overall disclosure objective provided that the objective is set to cater for the user's needs.

(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?

We agree that the disclosure objectives would help entities, auditors, and regulators to determine the information provided in the notes and will meet the overall user information needs. However, we acknowledge that the basis of disclosures is based on what is specific to an entity and important to management and the remaining users of the financial statements in the context of the industry that each entity operates in.

We are concerned that the implementation of the overall disclosure objective would be different as entities operate in unique environments which would result in entities having a unique sets of disclosures which might potentially compromise comparability.

We recommend that the Board should consider comparability of general purpose financial statements, however, we believe that the Board would not achieve comparability in respect of industry specific requirements such as auditors, companies. For example, if an item is not material in the current year and in the following year the item becomes material and needs to be disclosed in the financial statements, how do we achieve comparability given such a scenario?

What is important to management should be the basis of disclosure i.e. by ensuring that what is disclosed is relevant and faithfully represents that what it purports to represent, once judgement has been assessed thoroughly.

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?

We are concerned about whether preparers, auditors, and regulators are well equipped and matured to prepare the documentation and apply the specific disclosure objectives.

We acknowledge that there would be more work for entities when preparing their financial statements in providing the specific disclosures. We believe that preparers/entities will produce high volumes of documents justifying their judgments so that auditors have evidence when verifying their judgments. Documents proving decisions made by management are correct will need to be prepared and provided in making sure immaterial information is not provided. This exercise would also bring additional costs to the entities.

We also believe that the specific disclosures would encourage preparers to tailor their disclosures, provide explanations and to ensure that relevant information is provided in the financial statements. It is most likely that entities might approach what has been proposed as a ‘tick box’ exercise.

However, it would be difficult to advise/comment on whether the specific disclosure objectives would eliminate the irrelevant information. The undisclosed information is similar to what we have currently, and it might be a ‘tick box’ exercise.

It is not clear how the Board classified items as mandatory and others as non-mandatory; therefore, we suggest that this classification be done away with as preparers might overlook information the Board has classified as non-mandatory which might in fact be relevant to the preparers. We think preparers should determine which disclosures to include, based on materiality in terms of IFRS guidance as well as what is most meaningful based on judgement and thorough assessments.

(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?*

We believe that the control approach through documentation of the process, the judgement and the decision taken by the entity would assist the auditors in determining whether the entity has applied judgements effectively. However, this would also bring more work on auditors and regulators.

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?

We believe that this approach is acceptable, however, we are concerned that this could potentially result in a checklist approach.

(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?

The use of prescriptive language may not necessarily assist in the use of judgement by management. The use of a disclosure checklist i.e., 'a tick box' exercise is not necessarily eliminated using this approach, which is what our understanding of what the Board is trying to improve on from the current requirements. We believe the provision of the disclosure objective is appropriate but are concerned that the combination of that with the mandatory and non-mandatory lists might result in users following a checklist approach. We don't think the latter is appropriate in meeting the disclosure objective.

We recommend that the Board consider whether the list of disclosures will meet the disclosure objectives and avoid the use of a checklist. Entities might also incur additional costs in ensuring they comply with the proposed approach which we believe should also be considered by the Board.

(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?*

We believe that this approach would encourage entities to tailor their disclosures, provide explanations and to ensure that relevant information is provided in the financial statements. However, it would be difficult to comment on whether the approach would eliminate irrelevant information in the financial statements.

(d) *Do you agree that this approach would be operational and enforceable in practice? Why or why not?*

We agree that this approach would be operational and enforceable in practice. Preparers and auditors often understand the business, the decisions which are taken, material transactions and the elements that are being disclosed. However, we have concerns and questions in terms of how regulators would enforce the disclosure of information, particularly where information is assessed to not be mandatory.

(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.*

Entities would incur costs to be able to apply this overall approach. 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, and
- additional audit costs (audit fees and audit scope).

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?

Participants had mixed views on how the wording "while not mandatory" would be applied, uncertainty as to the direction the financial statements would take in applying the new approach as well as uncertainty on what the Board was intending to achieve with the wording. The other participants believe that this wording could lead to management becoming inactive to apply judgement as preparers might end up not using judgement in disclosing what might in fact be relevant information that is instead referred to in the ED as being "non-mandatory" when faced with tight deadlines.

We believe that non-mandatory disclosures are likely to come across as voluntary because entities would choose whether to disclose the information or not. We also believe that the approach of including the non-mandatory disclosures will lead to entities to continue with the checklist approach. Therefore, we would like the Board to clarify how they decided on certain disclosures to be mandatory and other disclosures to be non-mandatory.

It will be clearer if the Board replaces the words "while not mandatory" with something to the effect of "judgement should be used in disclosing the following information". We recommend that the Board should try not to replace management's judgement for the Board's judgement.

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).

Overall Approach

We recommend that the Board should leave the judgement of what is useful in preparing financial statements up to the preparers of those financial statements. Management prepares the financial statements; they understand the business and they would provide additional disclosure if there was a need.

Estimates and Judgments
We also propose that the estimates and judgements section need to be included into each section of the notes of the financial statements of the entities so that it would be easier when providing the disclosures of IFRS 13 and it would also assist the user in understanding the explanations.

Materiality
We have noted that the interaction between materiality and the specific disclosure objectives and overall disclosure objectives in each standard is not clear. We recommend that the Board should clarify the interaction of the definition of materiality and the specific disclosure objectives and overall disclosure objectives in each Standard to ensure consistency.

Implementation Guidance
We recommend that the Board should include this proposed guidance as part of the implementation guidance with illustrative examples.

Mandatory/Non-Mandatory Disclosures
We also suggest that the Board should remove the classification of disclosures (mandatory versus non-mandatory) and focus on entities having to apply judgement on the disclosures.

PROPOSED AMENDMENTS TO IFRS 13 – FAIR VALUE MEASUREMENT APPLYING THE PROPOSED GUIDANCE

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?

We agree with the proposed objective.

We also support the approach taken to improve the disclosure requirements, however, we suggest that the Board should focus more on the statement of profit or loss rather than the statement of financial position when they develop the overall approach to improve the disclosures.

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?

We have noted that the proposed specific disclosure objectives do not differ from the previous disclosure requirements.

(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?

Participants believe that judgement should be followed in deciding what is relevant for disclosure and what is 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.

We have noted that the proposed specific disclosure objectives do not differ from the previous disclosure requirements.

(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.

Guidance

We recommend that the Board should provide guidance/ clarity on how they decided on this proposed specific disclosure objective and how these proposed specific disclosure objectives meet the user needs.

Paragraph 103(a) states "(a) *the amount, nature and other characteristics of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition; and*". We recommend the Board clarify the meaning of the wording "other characteristics" in paragraph 103 (a).

We recommend that the Board should provide guidance on how to apply judgement in paragraph 111 "*Reasonably possible alternative fair value measurements*" and paragraph 114 "*Reasons for changes in fair value measurements".*

We recommend that the Board should leave the judgement of what is useful to the preparers of financial statements. Management prepares the financial statements; they understand the business and they would provide additional disclosure if there were a need.

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?*

We have noted that the proposed specific disclosure objectives do not differ from the previous disclosure requirements.

(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?*

We have noted that the proposed specific disclosure objectives do not differ from the previous disclosure requirements**.**

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?

We believe that the proposed 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 would be burdensome to the preparer. This proposed specific disclosure objective would incur additional costs. The Board should clarify what the relevance of this information would be.

We have also noted that the proposed specific disclosure objectives do not differ from the previous disclosure requirements.

(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?

We believe that the proposed 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 would be burdensome to the preparer. This proposed specific disclosure objective would incur additional costs. The Board should clarify what the relevance of this information to the preparer would be.

We have also noted that the proposed specific disclosure objectives do not differ from the previous disclosure requirements.

(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?

We believe that the proposed 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 would be burdensome to the preparer. This proposed specific disclosure objective would incur additional costs. The Board should clarify what the relevance of this information would be.

We have also noted that the proposed specific disclosure objectives do not differ from the previous disclosure requirements.

(d) Do you have any other comments about the proposed specific disclosure objective?

We believe that the disclosures are useful to the users and should be more common and considered.

The proposed specific disclosure objectives disagree with the Board's objective to remove irrelevant information and have information that is useful to the users. We recommend that the Board should clarify why users believe that this information is useful.

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?

The use of the wording "shall" in paragraph 116 and paragraph 120 makes it mandatory which is inconsistent with the overall approach. This further takes away from the application of judgement by management.

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?

We have no further comments.

PROPOSED AMENDMENTS TO IAS 19 – EMPLOYEE BENEFITS APPLYING THE PROPOSED GUIDANCE

Question 12—Overall disclosure objective for defined benefit plans

Paragraphs BC107–BC109 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for defined benefit plans.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans? If not, what alternative objective do you suggest and why?

We agree with the proposed objective that would result in the provision of useful information that meets the overall user information needs about defined benefit plans.

Question 13—Specific disclosure objectives for defined benefit plans

Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objectives about defined benefit plans 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 defined benefit plans? 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 relevant information and the elimination of irrelevant information about defined benefit plans 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.

We believe that it would be helpful if the Board provide guidance on how to determine a material Defined Benefit (DB) plan. For example, if a well-managed plan has got no value on the statement of financial position, does that constitute not material? Or the fact that there are those risks that if the underlying assumptions changed dramatically, it could have value or negative value in the future? What constitutes the materiality level that requires a disclosure in the current year.

Participants had mixed views on the management of DB plans. Some believe that DB plans are no different to a Defined Contributions (DC) plan. For example, if a DB plan is correctly funded with no material actuarial surplus, no material actuarial liability, it actually performs no different to a DC plan, it's identical, so the fact that an entity has a DB plan does not create more or less risk. These participants also believe that users are more concerned about material actuarial surpluses because they might get used by management to enhance benefits when they are actually an overpayment of the obligation or material actuarial liabilities which is a potential future cash flow and it's not different to a DC plan. The latter believe that DB plans are not well managed and do not have the same risk exposures as a DC plan.

We also recommend that the Board should allow management to apply judgement on DB plans. This might assist with a lot of DB plans that are no longer being disclosed.

Preparers do not agree that the specific disclosure objectives would justify their costs because every year they incur costs on the actuarial report regardless of materiality and they do not see any value on these specific disclosure objectives.

Question 14—Information to meet the specific disclosure objectives for defined benefit plans

Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans 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 147F, 147M and 147V of the [Draft] amendments to IAS 19? Why or why not? If not, what changes do you suggest and how would help an entity to meet the specific disclosure objectives?*

(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*?

We suggest that the proposed disclosures should be considered on a per plan basis.

We are also uncertain of how these proposed amendments in IAS 19 would be helpful as we will still have the same disclosures we had previously before the amendments.

We also believe that the wording "while not mandatory" in a material DB plan becomes mandatory and we are uncertain on how an entity will refrain from the disclosures. We also believe that these disclosures will increase pressure on management.

Question 15—Overall disclosure objective for defined contribution plans

Paragraphs BC156–BC158 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for defined contribution plans.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined contribution plans? If not, what alternative objective do you suggest and why?

We agree with the proposed objective.
However, we are concerned with the relevance of DC plans providing useful information to the users.

Question 16—Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control

Paragraphs BC159–BC166 of the Basis for Conclusions describe the Board's reasons for proposing which disclosure objectives should apply for multi-employer plans and defined benefit plans that share risks between entities under common control.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

We agree with these proposals. However, it seems quite necessary to apply the non-mandatory items to achieve the specific disclosure objective with regards to this disclosure. The question arises whether these items should be non-mandatory.

Question 17—Disclosures for other types of employee benefit plans

Paragraphs BC167–BC170 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objectives for other types of employee benefit plans.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

We recommend that the Board should clarify why they did not propose specific disclosure objectives on short-term employee benefits plan, other long-term employee benefits plan and termination benefits plan.

We also believe that it would be helpful if the Board provide guidance on how to determine a material short-term employee benefits plan, other long-term employee benefits plan and termination benefits plan. This guidance would assist preparers when they perform their disclosures.

Other

Question 18—Other comments on the proposed amendments to IAS 19

Do you have any other comments on the proposed amendments to IAS 19 in this Exposure Draft, including the analysis of the effects (paragraph BC216 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

We have no further comments.