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Comments on the Exposure Draft（ED/2021/3）
Disclosure Requirements in IFRS Standards—A Pilot Approach

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to provide our comments on the International Accounting Standards Board ("IASB")'s Exposure Draft (ED/2021/3) *Disclosure Requirements in IFRS Standards—A Pilot Approach* (the "ED"), issued in March 2021.

The draft guidance

2. The ED proposes the development of a draft guidance to address the "disclosure problem". In our view, while it is important to consider developing guidance similar to what is proposed, developing a system that would ensure that the proposed guidance works effectively is equally or more important. In particular, the draft guidance in the ED proposes shifting the focus to the application of judgement as one of the solutions to address the disclosure problem; however, given that IFRS standards are required or permitted to be applied in many jurisdictions, we think that the perspective that disclosure requirements developed by applying the draft guidance will be subject to compliance in each jurisdiction is also important. Specifically, we think that a framework that emphasises the application of judgement should also be established in audit and enforcement, but our understanding is that, at present, there are some cases in which such a framework is not in place. Under these

circumstances, we are of a view that it is insufficient for the IASB to change accounting standards in isolation, but that the IASB needs to work with auditors and regulators.

3. As stated in the "Introduction" of the ED, we agree that the "disclosure problem" includes the problem that there is "not enough relevant information" and the problem that there is "too much irrelevant information". However, we are of a view that the draft guidance of the ED does not adequately address these problems.

(On the solution to "not enough relevant information")

4. We are of a view that it is important to define specific but not overly detailed disclosure objectives for an entity to provide sufficient relevant information.

5. However, the draft guidance equates the needs of users of financial statements with the disclosure objectives, and further requires preparers of financial statements to satisfy the overall and specific information needs of users of financial statements. We think this approach is problematic.

6. In our view, the essence of the issue to be resolved in this project is to clarify how accounting standard setters should specify in the accounting standards the disclosure objectives that would satisfy the objectives of general purpose financial statements, taking into account the fact that information needs and views on materiality vary among stakeholders. The ED attempts to resolve this issue relying on the concept of "needs of users of financial statements" without referring to specific proposals. However, such proposed approach may lead to an arbitrary process of selecting information to be included in general purpose financial statements from various user information needs. We think that the issue to be resolved in this project will not be resolved until the IASB develops guidance on how to identify the information that should be included in general purpose financial statements from the various user information needs.

(On the solution to " too much irrelevant information")

7. We are of a view that a shift in focus to the application of judgement and a clarification of the concept of materiality would be useful in addressing the problem of too much irrelevant information.

Shift in focus to the application of judgement

8. The ED proposes shifting the focus from compliance with checklists to the application of judgement. We support this shift in focus to the application of judgement, but we also do not think that the use of checklists is always inappropriate.

9. We are of a view that "compliance with checklists" is problematic when the determination on whether to disclose or not is made mechanically, without applying judgement to the disclosure requirements. In other words, we are of a view that, as long as judgement is properly applied, it would be efficient to use checklists and thus checklists would be useful.

Clarification of the concept of materiality

10. The ED proposes requiring judgments about compliance with specific disclosure objectives and judgments about compliance with overall disclosure objectives. Consistent with this thinking, we think it should be clearly stated that judgments regarding materiality would apply twice when making the two judgments. That is, in applying the concept of materiality, it should be made clear that there are two levels of application: judging whether individual items are material, and then judging materiality from the perspective of the financial statements as a whole. This means that some items may be individually material, but not disclosed when viewed from the perspective of the financial statements as a whole. We believe that this approach is consistent with the approach set out in IFRS Practice Statement 2 *Making Materiality Judgements*.

    For details, please refer to paragraphs 1 through 19 of the attached comments on individual questions in the ED, which are provided in the Appendix.

<u>Proposed Amendments to Individual Standards (IFRS 13 and IAS 19) – Overall Comments</u>

11. Based on our comments on the draft guidance, we are of a view that the proposed amendments to the individual standards (IFRS 13 and IAS 19) are problematic in the following respects:

- Application of the proposed guidance ignoring the disclosure requirements of individual standards
- Reasons for selecting specific disclosure objectives
- Reasons for selecting mandatory items of information
- Determining what should be disclosed when it is not mandatory
- Concept of materiality
- Items with similar or overlapping information

(Application of the proposed guidance ignoring the disclosure requirements of individual standards)

12. We are of a view that it is necessary to clarify the relationship between the primary financial statements and the notes. Our understanding is that the roles of the notes are to supplement the information about items recognised in the primary financial statements and to provide information about items not recognised in the primary financial statements. In fact, our understanding is that most of the disclosure requirements in existing individual standards have been developed taking into account the requirements for recognition and measurement.

13. The proposed amendments to the individual standards in the ED seem to ignore the disclosure requirements in existing individual standards. They seem to be developed solely on the proposed guidance in the ED. In our view, if any changes are to be made to the disclosure requirements in existing individual standards, the objectives for which the existing disclosure requirements were developed should be taken into account.

14. IFRS 13 is a disclosure standard, and when developing this standard, the IASB decided, after following due process, to introduce a fair value hierarchy with clear objectives and to differentiate disclosures by level. However, the proposed amendments to IFRS 13 in the ED seem to ignore the objective of introducing the fair value hierarchy (leveling) into the current IFRS 13, and, in our view, this is inappropriate. Specific details are provided in paragraph 25 and in paragraph 32 of the comments on individual questions in the ED, which are provided in the Appendix.

(Reasons for selecting specific disclosure objectives)

15. The proposed amendments to the individual standards in the ED provide specific disclosure objectives, but it is unclear why these specific disclosure objectives were selected. As mentioned above, we are of a view that the proposed guidance lacks guidance regarding the selecting information to be included in general purpose financial statements from the various information needs of users of financial statements. After such guidance is developed, specific disclosure objectives should be identified in light of such guidance.

(Reasons for selecting mandatory items of information)

16. The ED proposes, in addition to the "while not mandatory" items, requiring certain information to be disclosed to meet specific disclosure objectives, using the term "shall". We are of a view that there should be good reasons for mandatory disclosures, and that the IASB should make disclosures mandatory only if it can specifically explain why such items must be disclosed. In stating the reasons, the IASB should discuss not only the benefits of the information, but also the cost-effectiveness of the information.

(Determining what should be disclosed when it is not mandatory)

17. Items of information listed as "while not mandatory" are the same as other items that are not listed at all, in the sense that disclosure would not be required. However, we believe there may be a difference between those that are listed and those that are not. For example, an entity may be required to consider whether disclosure is necessary and explain how it reached its conclusion to its auditors. As mentioned above, we are of a view that such issues cannot be resolved by changing accounting standards in isolation.

18. With respect to the optional items that are "while not mandatory", we are of a view that consideration should be given to adopting a management approach, that is, entities should decide whether to disclosure a specific item based on whether the information is reviewed by management for business management purposes.

(Concept of materiality)

19. The proposed amendments to the individual standards in the ED seem to imply that all specific disclosure objectives would need to be met, regardless of the materiality of the individual items (fair value measurement and employee benefits) from the perspective of the financial statements as a whole. We are of a view that a statement should be added to the ED to clarify that judgments should be applied from the perspective of materiality of the financial statements as a whole to determine whether disclosure is ultimately required.

20. In addition, while other existing standards explicitly state that items are required to be disclosed when they are "material" or "significant", the proposed amendments to the individual standards in the ED do not include references to "material" nor "significant". Although the ED states that these changes are intended to reinforce that "materiality" is a concept that applies to all disclosure requirements (paragraph DG4 of the ED), we are of a view that this change may be misleading. Therefore, given that the concept of materiality in IAS 1 *Presentation of Financial Statements* will be maintained, we are of a view that the main body of the standard should clearly state that whether "while not mandatory" items are to be disclosed will continue to be judged based on the concept of materiality.

(Items with similar or overlapping information)

21. The proposed amendments to individual standards in the ED have similarities or overlaps with items that are required to be disclosed in other existing standards. Such similarities or overlaps should be avoided when developing disclosure requirements.

22. For example, the proposed amendment to IAS 19 in the ED proposes disclosing related deferred tax assets and liabilities. Deferred tax assets and liabilities are often not insignificant due to the size of their amounts, and if the approach in the ED is applied to other standards, each individual standard may include requirements to disclose deferred tax assets and liabilities. On the other hand, the disclosure requirements in IAS 12 *Income Taxes* provide comprehensive disclosure requirements related to deferred tax assets and liabilities. In order to avoid duplication, we are of a view that the IASB should not require the disclosure of information related to deferred taxes in each individual standard because IAS 12 already requires comprehensive disclosures.

23. Similarly, the proposed amendment to IAS 19 in the ED proposes to disclose gross cash flows. The requirements in IAS 7 *Statement of Cash Flows* provide comprehensive requirements related to cash flows. In order to avoid duplication, we are of a view that the IASB should not require the disclosure of information related to cash flows in each individual standard because IAS 7 already requires comprehensive disclosures.

For details, please refer to paragraphs 23-31, 32 and 42-43 of the comments on individual questions in the ED, which are provided in the Appendix.

<u>Proposed Amendments to IFRS 13</u>

24. With respect to the proposed amendments to IFRS 13 in the ED, in addition to the issues raised in paragraphs 11 through 23 of this letter, we are of a view that the following proposals are problematic:

- No distinction between Level 2 and Level 3 disclosures
- Information on alternative fair value measurements
- Disclosure of the effect of foreign exchange differences
- Disclosure of assets and liabilities included in each level

(No distinction between Level 2 and Level 3 disclosures)

25. The current IFRS 13 differentiates required disclosures between items that fall under Level 2 and Level 3 of the fair value hierarchy, considering that the risks and other factors are clearly different between the two. However, as described in paragraphs 12 through 14 of this letter, the ED's proposed amendments to IFRS 13 apply the proposed guidance ignoring the disclosure requirements in the current standard, and as result, disclosures are treated indifferently regardless of whether they fall under Level 2 or Level 3. Treating Level 2 and Level 3 indifferently apparently ignores the objective of establishing the fair value hierarchy in the current IFRS 13. Because of the risk and other factors, we continue to think that differentiating the required disclosures between Level 2 and Level 3 as in the current standard is appropriate. When applying the proposed guidance in the ED, we think the required disclosures for Level 2 and Level 3 in the fair value hierarchy should be determined separately,

taking into account the difference in the required disclosures between Level 2 and Level 3 in the current standard.

(Information on alternative fair value measurements)

26. The proposed amendments to IFRS 13 in the ED proposes requiring the disclosure of information about alternative fair value measurements. However, it is difficult to apply alternative fair value measurements when the fair value is measured using only ordinary inputs. Therefore, we are of a view that the disclosure of information about alternative fair value measurements should be optional.

(Disclosure of the effect of foreign exchange differences)

27. The ED's proposed amendments to IFRS 13 propose requiring the disclosure of information that would enable users of financial statements to understand the significant reasons for changes in fair value measurements from the beginning of the current reporting period to the end of the current reporting period (paragraphs 114 to 117 of the proposed amendments to IFRS 13), and the reasons for changes include the effects of foreign exchange differences. We are of a view that disclosure of the effects of foreign exchange differences should be optional, taking into account the IASB's recent discussions in its project on primary financial statements. In that project, the IASB has tentatively decided that the classification of foreign exchange differences will be an exception if it would involve excessive cost or effort, and we think the same applies for disclosures required in IFRS 13. However, we are of a view that disclosure of the effect of foreign exchange differences would be necessary when the changes in foreign exchange differences are a significant reason for the changes in the fair values.

(Disclosure of assets and liabilities included in each level)

28. The proposed amendments to IFRS 13 in the ED propose requiring the disclosure of information about assets and liabilities included in each level of the fair value hierarchy (paragraphs 103 to 106 of the proposed amendments to IFRS 13). However, we are of a view that the net presentation of derivative transactions should be permitted because the nature of derivative transactions is such that they can be either assets or liabilities depending on their measurement at the end of the reporting period, and it may be appropriate to disclose them together rather than separately as assets

and liabilities. Our proposed disclosures are described in paragraph 35 of our comments on individual questions in the ED.

For details, please refer to paragraphs 32 through 35 of the comments on individual questions in the ED, which are provided in the Appendix.

Proposed Amendments to IAS 19

29. With respect to the ED's proposed amendments to IAS 19, in addition to the issues raised in paragraphs 11 to 23 of this letter, we are of a view that the following proposals are problematic:

- Distinction between actuarial gains or losses from changes in actuarial assumptions and actuarial gains or losses from changes in experience adjustments
- Description of the nature of defined benefit plans and related risks

(Distinction between actuarial gains or losses from changes in actuarial assumptions and actuarial gains or losses from changes in experience adjustments)

30. The proposed amendments to IAS 19 in the ED requires the disclosure of “actuarial gains or losses from changes in actuarial assumptions” (paragraph 147V(i)) and “actuarial gains or losses from changes in experience adjustments” (paragraph 147V(j)) in the reconciliation of the opening balance to the closing balance of significant reasons for changes in the net defined benefit liability (asset). However, these items are related to each other, and we are of a view that it is not necessary to separate these items because the significance of separating them is not clear and it is unclear whether the benefits would outweigh its costs. We note that actuarial assumptions are not required to be disclosed under paragraph 147S of IAS 19 and, accordingly, we are of a view that the distinction between “changes in actuarial assumptions” and “changes in experience adjustments” in paragraphs 147V(i) and 147V(j) of IAS 19 should be optional, in line with paragraph 147S.

(Description of the nature of defined benefit plans and related risks)

31. The proposed amendments to IAS 19 in the ED proposes requiring the disclosure of a description of the nature of the defined benefit plan and the related risks (paragraph 147G). However, we note that it is difficult to determine how detailed this disclosure should be and suggest that more detailed explanation or guidance be provided.

    For details, please refer to paragraphs 42 to 45 of the comments on individual questions in the ED, which are provided in the Appendix.

<u>Conclusion</u>

32. For our comments on the specific questions, please refer to the Appendix.

33. We hope our comments are helpful for the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Y. Kawanishi

Yasunobu Kawanishi
Vice Chair

Accounting Standards Board of Japan

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?

1. We do not agree to the proposals for the following reasons.

2. The proposed guidance in the ED proposes that disclosure requirements be grouped into overall disclosure objectives, specific disclosure objectives, and items of information to satisfy specific disclosure objectives. Although this proposal would make the accounting standards easier to read, we are of a view that such drafting improvements should be made from time to time and that it is not necessary to prescribe this proposal as guidance.

3. The ED proposes requiring judgments about compliance with specific disclosure objectives and judgments about compliance with overall disclosure objectives. Consistent with this thinking, we think it should be clearly stated that judgments regarding materiality would apply twice when making the two judgments. That is, in applying the concept of materiality, it should be made clear that there are two levels of application: judging whether individual items are material, and then judging materiality from the perspective of the financial statements as a whole. This means that some items may be individually material, but not disclosed when viewed from the perspective of the financial statements as a whole. We believe that this approach is consistent with the approach set out in IFRS Practice Statement 2 Making Materiality Judgements.

4. In addition, with respect to the overall disclosure objective, paragraph DG5 of the ED proposes to provide a standards-specific focus that is narrower than the objectives of general purpose financial reporting and financial statement in “Conceptual Framework for Financial Reporting” (“the Conceptual Framework”) and IAS 1 “Presentation of Financial Statements”. We do not disagree with this direction, but

the relationship between the overall disclosure objective and these concepts in the Conceptual Framework, etc. should be clearly stated. As stated in paragraph 2 of this letter, we are of a view that it is not sufficient for the IASB to change accounting standards alone, but that the IASB needs to work with auditors and regulators. We would like to point out that one thing that accounting standards can do is to provide disclosure objectives as specific as possible.

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?

5. We do not agree to the proposals for the following reasons.

6. As stated in the "Introduction" of the ED, we agree that the "disclosure problem" includes the problem that there is "not enough relevant information" and the problem that there is "too much irrelevant information". However, we are of a view that the draft guidance of the ED does not adequately address these problems.

(On the solution to "not enough relevant information")

7. We are of a view that it is important to define specific but not overly detailed disclosure objectives for an entity to provide sufficient relevant information.

8. However, the draft guidance equates the needs of users of financial statements with the disclosure objectives, and further requires preparers of financial statements to

satisfy the overall and specific information needs of users of financial statements. We think this approach is problematic. The main reasons for this are as follows.

- The draft guidance treats the needs of users of financial statements as if they were an identifiable few, when in fact they are many and varied. For example, because climate change is of varying importance to different companies, the information needed for analysis may vary, with investors looking at companies of high importance placing great emphasis on this information, while investors looking at companies of low importance may not consider it as important. In this context, the needs of users of financial statements to be included in the general purpose financial statements should only be determined by accounting standard setters through the process of developing accounting standards.

  In order to avoid misunderstandings among stakeholders, it should be clarified that the users of financial statements envisioned by the IASB are those who, in accordance with the conceptual framework, have reasonable knowledge of business and economic activities and who consider and analyze information with diligence.

- The needs of users of financial statements and the disclosure objects are not the same. We agree that what users do not need should not be disclosed, but do not agree that all information that meet their needs need to be disclosed nor can be disclosed. In this context, in determining what will actually be disclosed, we are of a view that a two-step selection process will be followed. The first step is a process in which the accounting standard setter specifies in the accounting standard the disclosure objectives that satisfy the objectives of general purpose financial statements from among the information that users of financial statements need. The second step is for each entity to exercise its judgment on materiality in determining what to disclose. The appropriateness of the information disclosed through the two steps should be judged based on whether it satisfies the disclosure objectives selected by the accounting standard setter in the first step.

9. As we pointed out in the previous paragraph of this letter, in our view, the essence of the issue to be resolved in this project is to clarify how accounting standard setters should specify in the accounting standards the disclosure objectives that would satisfy the objectives of general purpose financial statements, taking into account the

fact that information needs and views on materiality vary among stakeholders. The ED attempts to resolve this issue relying on the concept of "needs of users of financial statements" without referring to specific proposals. However, such proposed approach may lead to an arbitrary process of selecting information to be included in general purpose financial statements from various user information needs. We think that the issue to be resolved in this project will not be resolved until the IASB develops guidance on how to identify the information that should be included in general purpose financial statements from the various user information needs.

10. In the current disclosure requirements, it is often stated at the end that information that contributes to the evaluation or understanding of users of financial statements should be disclosed even if there is no specific disclosure requirement (so-called catch-all provision). However, as mentioned in the previous paragraph, the process by which the accounting standard setter selects the disclosure objectives based on the needs of users of financial statements is important, and we are of a view that the catch-all provision does not solve the problem that the project needs to solve.

11. The IASB's Conceptual Framework states that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. In this context, financial statements form the central part of financial reporting and include the primary financial statements (the main body of financial statements) and the notes. Accordingly, we think that the whether the objective of financial reporting is achieved should be determined by considering the combination of information provided in the primary financial statements and in the notes.

12. However, the draft guidance hardly mentions the relationship between the primary financial statements and the notes, and suddenly starts with a discussion of the disclosure objectives. We are of a view that the relationship between primary financial statements and notes needs to be clarified first.

13. We understand that the notes provide the following information.

- Information on the reporting company
- To provide explanatory or supplementary information about line items recognised and measured in the financial statements

- Historical events and current conditions that are not recognised in the primary financial statements but that may affect the entity's cash flows

In particular, for line items recognised and measured in the financial statements, we are of a view that it is important to understand what the IASB's objective is in establishing the recognition and measurement requirements and what disclosures will be required to meet that objective.

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.

14. The ED proposes the development of a draft guidance to address the "disclosure problem". In our view, while it is important to consider developing guidance similar to what is proposed, developing a system that would ensure that the proposed guidance works effectively is equally or more important. In particular, the draft guidance in the ED proposes shifting the focus to the application of judgement as one of the solutions to address the disclosure problem; however, given that IFRS standards are required or permitted to be applied in many jurisdictions, we think that the perspective that disclosure requirements developed by applying the draft guidance will be subject to compliance in each jurisdiction is also important. Specifically, we think that a framework that emphasises the application of judgement should also be established in audit and enforcement, but our understanding is that, at present, there are some cases in which such a framework is not in place. Under these circumstances, we are of a view that it is insufficient for the IASB to change accounting standards in isolation, but that the IASB needs to work with auditors and regulators.

15. As stated in the "Introduction" of the ED, we agree that the "disclosure problem" includes the problem that there is "not enough relevant information" and the problem that there is "too much irrelevant information". However, we are of a view that the draft guidance of the ED does not adequately address these problems.

(On the solution to " too much irrelevant information")

16. We are of a view that a shift in focus to the application of judgement and a clarification of the concept of materiality would be useful in addressing the problem of too much irrelevant information.

Shift in focus to the application of judgement

17. The ED proposes shifting the focus from compliance with checklists to the application of judgement. We support this shift in focus to the application of judgement, but we also do not think that the use of checklists is always inappropriate.

18. We are of a view that "compliance with checklists" is problematic when the determination on whether to disclose or not is made mechanically, without applying judgement to the disclosure requirements. In other words, we are of a view that, as

long as judgement is properly applied, it would be efficient to use checklists and thus checklists would be useful.

Clarification of the concept of materiality

19. The ED proposes requiring judgments about compliance with specific disclosure objectives and judgments about compliance with overall disclosure objectives. Consistent with this thinking, we think it should be clearly stated that judgments regarding materiality would apply twice when making the two judgments. That is, in applying the concept of materiality, it should be made clear that there are two levels of application: judging whether individual items are material, and then judging materiality from the perspective of the financial statements as a whole. This means that some items may be individually material, but not disclosed when viewed from the perspective of the financial statements as a whole. We believe that this approach is consistent with the approach set out in IFRS Practice Statement 2 *Making Materiality Judgements*.

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?

20. See the answer to question 3.

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).

21. We do not agree to the proposed guidance and therefore refrain from responding to this question.

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?

22. See the answer to question 1.

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.

(Common comments on IFRS 13 and IAS 19)

Application of the proposed guidance ignoring the disclosure requirements of individual standards

23. We are of a view that it is necessary to clarify the relationship between the primary financial statements and the notes. Our understanding is that the roles of the notes are to supplement the information about items recognised in the primary financial statements and to provide information about items not recognised in the primary financial statements (see paragraph 13 of our comments on the question in the Appendix). In fact, our understanding is that most of the disclosure requirements in existing individual standards have been developed taking into account the requirements for recognition and measurement.

24. The proposed amendments to the individual standards in the ED seem to ignore the disclosure requirements in existing individual standards. They seem to be developed solely on the proposed guidance in the ED. In our view, if any changes are to be made to the disclosure requirements in existing individual standards, the objectives for which the existing disclosure requirements were developed should be taken into account.

Reasons for selecting specific disclosure objectives

25. The proposed amendments to the individual standards in the ED provide specific disclosure objectives, but it is unclear why these specific disclosure objectives were selected. As mentioned above, we are of a view that the proposed guidance lacks guidance regarding the selecting information to be included in general purpose financial statements from the various information needs of users of financial statements. After such guidance is developed, specific disclosure objectives should be identified in light of such guidance.

Reasons for selecting mandatory items of information

26. The ED proposes, in addition to the "while not mandatory" items, requiring certain information to be disclosed to meet specific disclosure objectives, using the term "shall". We are of a view that there should be good reasons for mandatory disclosures,

and that the IASB should make disclosures mandatory only if it can specifically explain why such items must be disclosed. In stating the reasons, the IASB should discuss not only the benefits of the information, but also the cost-effectiveness of the information.

Determining what should be disclosed when it is not mandatory

27. Items of information listed as "while not mandatory" are the same as other items that are not listed at all, in the sense that disclosure would not be required. However, we believe there may be a difference between those that are listed and those that are not. For example, an entity may be required to consider whether disclosure is necessary and explain how it reached its conclusion to its auditors. As mentioned above, we are of a view that such issues cannot be resolved by changing accounting standards in isolation.

28. With respect to the optional items that are "while not mandatory", we are of a view that consideration should be given to adopting a management approach, that is, entities should decide whether to disclosure a specific item based on whether the information is reviewed by management for business management purposes.

Concept of materiality

29. The proposed amendments to the individual standards in the ED seem to imply that all specific disclosure objectives would need to be met, regardless of the materiality of the individual items (fair value measurement and employee benefits) from the perspective of the financial statements as a whole. We are of a view that a statement should be added to the ED to clarify that judgments should be applied from the perspective of materiality of the financial statements as a whole to determine whether disclosure is ultimately required.

30. In addition, while other existing standards explicitly state that items are required to be disclosed when they are "material" or "significant", the proposed amendments to the individual standards in the ED do not include references to "material" nor "significant". Although the ED states that these changes are intended to reinforce that "materiality" is a concept that applies to all disclosure requirements (paragraph DG4 of the ED), we are of a view that this change may be misleading. Therefore, given that the concept of materiality in IAS 1 *Presentation of Financial Statements* will be maintained, we are of a view that the main body of the standard should clearly

state that whether “while not mandatory” items are to be disclosed will continue to be judged based on the concept of materiality.

Items with similar or overlapping information

31. The proposed amendments to individual standards in the ED have similarities or overlaps with items that are required to be disclosed in other existing standards. Such similarities or overlaps should be avoided when developing disclosure requirements.

(Comments on IFRS 13)

No distinction between Level 2 and Level 3 disclosures

32. IFRS 13 is a disclosure standard, and when developing this standard, the IASB decided, after following due process, to introduce a fair value hierarchy with clear objectives and to differentiate disclosures by level. However, the ED's proposed amendments to IFRS 13 apply the proposed guidance ignoring the disclosure requirements in the current standard, and as a result, disclosures are treated indifferently regardless of whether they fall under Level 2 or Level 3. Treating Level 2 and Level 3 indifferently apparently ignores the objective of establishing the fair value hierarchy in the current IFRS 13. Because of the risk and other factors, we continue to think that differentiating the required disclosures between Level 2 and Level 3 as in the current standard is appropriate. When applying the proposed guidance in the ED, we think the required disclosures for Level 2 and Level 3 in the fair value hierarchy should be determined separately, taking into account the difference in the required disclosures between Level 2 and Level 3 in the current standard.

Information on alternative fair value measurements

33. The proposed amendments to IFRS 13 in the ED proposes requiring the disclosure of information about alternative fair value measurements. However, it is difficult to apply alternative fair value measurements when the fair value is measured using only ordinary inputs. Therefore, we are of a view that the disclosure of information about alternative fair value measurements should be optional.

Disclosure of the effect of foreign exchange differences

34. The ED's proposed amendments to IFRS 13 propose requiring the disclosure of

information that would enable users of financial statements to understand the significant reasons for changes in fair value measurements from the beginning of the current reporting period to the end of the current reporting period (paragraphs 114 to 117 of the proposed amendments to IFRS 13), and the reasons for changes include the effects of foreign exchange differences. We are of a view that disclosure of the effects of foreign exchange differences should be optional, taking into account the IASB's recent discussions in its project on primary financial statements. In that project, the IASB has tentatively decided that the classification of foreign exchange differences will be an exception if it would involve excessive cost or effort, and we think the same applies for disclosures required in IFRS 13. However, we are of a view that disclosure of the effect of foreign exchange differences would be necessary when the changes in foreign exchange differences are a significant reason for the changes in the fair values.

Disclosure of assets and liabilities included in each level

35. The proposed amendments to IFRS 13 in the ED propose requiring the disclosure of information about assets and liabilities included in each level of the fair value hierarchy (paragraphs 103 to 106 of the proposed amendments to IFRS 13). However, we are of a view that the net presentation of derivative transactions should be permitted because the nature of derivative transactions is such that they can be either assets or liabilities depending on their measurement at the end of the reporting period, and it may be appropriate to disclose them together rather than separately as assets and liabilities. Our proposed disclosures in response to the example disclosures in this ED are as follows (please refer to the proposed disclosures below).

Proposed disclosures on assets and liabilities measured at fair value based on the ED's Example 15 (excerpt from Example 15, net presentation for derivatives)

(CU in millions)		Fair value measurements at the end of the reporting period using		
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
Description	31/12/X9	(Level 1)	(Level 2)	(Level 3)
RECURRING FAIR VALUE				
Assets				
Total trading securities	153	95	23	35
Total investment properties	58			58
Total debt securities	412	42	287	83
Liabilities				
Total trading securities	(84)	(66)	(18)	
Total contingent consideration payable	(80)			(80)
Derivatives:				
Interest rate contracts	(43)		(43)	
Foreign exchange contracts	28		28	
Credit contracts	38			38
Index-linked swaps	(35)		(35)	
Commodity futures contracts	21	21		
Commodity forward contracts	(9)		(9)	
Total derivatives	0	21	(59)	38

(*) Net receivables (assets) and payables (liabilities) arising from derivative transactions are shown on a net basis, and items that are net payables (liabilities) in total are shown in parentheses.

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?

36. See the answer to question 7.

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?

37. Since we have no comments on this matter, we will refrain from answering this question.

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?

38. Since we have no comments on this matter, we will refrain from answering this question.

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?

(An explanation of the valuation techniques and processes in the current IFRS 13)

39. The description of valuation techniques and processes required in the current IFRS 13 (paragraph 93(d) of the current IFRS 13) is only an abstract and general description, so the deletion of the provision requiring these proposed in this ED is considered to be an improvement.

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?

40. See the answer to question 1.

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.

(Comments common to IFRS 13 and IAS 19)

41. See the answer to question 7.

(Comments on IAS 19)

Items with similar or overlapping information

42. The proposed amendment to IAS 19 in the ED proposes disclosing related deferred tax assets and liabilities. Deferred tax assets and liabilities are often not insignificant due to the size of their amounts, and if the approach in the ED is applied to other standards, each individual standard may include requirements to disclose deferred tax assets and liabilities. On the other hand, the disclosure requirements in IAS 12 *Income Taxes* provide comprehensive disclosure requirements related to deferred tax assets and liabilities. In order to avoid duplication, we are of a view that the IASB

should not require the disclosure of information related to deferred taxes in each individual standard because IAS 12 already requires comprehensive disclosures.

43. Similarly, the proposed amendment to IAS 19 in the ED proposes to disclose gross cash flows. The requirements in IAS 7 *Statement of Cash Flows* provide comprehensive requirements related to cash flows. In order to avoid duplication, we are of a view that the IASB should not require the disclosure of information related to cash flows in each individual standard because IAS 7 already requires comprehensive disclosures.

Distinction between actuarial gains or losses from changes in actuarial assumptions and actuarial gains or losses from experience adjustments

44. The proposed amendments to IAS 19 in the ED requires the disclosure of "actuarial gains or losses from changes in actuarial assumptions" (paragraph 147V(i)) and "actuarial gains or losses from changes in experience adjustments" (paragraph 147V(j)) in the reconciliation of the opening balance to the closing balance of significant reasons for changes in the net defined benefit liability (asset). However, these items are related to each other, and we are of a view that it is not necessary to separate these items because the significance of separating them is not clear and it is unclear whether the benefits would outweigh its costs. We note that actuarial assumptions are not required to be disclosed under paragraph 147S of IAS 19 and, accordingly, we are of a view that the distinction between "changes in actuarial assumptions" and "changes in experience adjustments" in paragraphs 147V(i) and 147V(j) of IAS 19 should be optional, in line with paragraph 147S.

Description of the nature of defined benefit plans and related risks

45. The proposed amendments to IAS 19 in the ED proposes requiring the disclosure of a description of the nature of the defined benefit plan and the related risks (paragraph 147G). However, we note that it is difficult to determine how detailed this disclosure should be and suggest that more detailed explanation or guidance be provided.

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 they 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?

46. See the answer to question 13.

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?

47. See the answer to question 1.

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?

48. See the answer to question 1.

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?

49. See the answer to question 1.

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?

50. Since there are no other comments, we will refrain from answering this question.

End