

Technical Session 3:

ASBJ's Preliminary view on the ED – Disclosure requirements in IFRS standards (a Pilot Approach)

Accounting Standards Board of Japan November 2021

Discussion Points

1 Shift to an objective-based approach

2 User information needs and disclosure objectives

3 Two-step judgement in meeting the disclosure objective

1 Shift to an objective-based approach

IASB's View

- **Removing the requirement to disclose specific items and develop the proposed objective-based guidance will help preparers, auditors and regulators improve the effectiveness of disclosures, then help solve the disclosure problem** (paragraph BC13, BC191)

Alternative View

- **The primary source of the disclosure problem is the poor application of materiality rather than the perceived prescriptive nature of current disclosure requirements** (paragraph AV3)
- **Concerns about the enforcement challenges, prepares' burden and comparability** (paragraph AV1)

The ASBJ's Preliminary View

- ❖ **We basically agree with the IASB's approach to apply judgement based on disclosure objectives, rather than using the requirements like a checklist**
- ❖ **However, some stakeholders in Japan, particularly preparers, prefer the checklist approach**
 - ▶ **Checklists are efficient means for preparers to demonstrate their compliance with accounting standards to their auditors and regulators**
 - ▶ **A checklist approach may be preferred and used by auditors and regulators to ensure consistency**

What are your views?

2 User information needs and disclosure objectives

- ▶ **Within the context of an individual IFRS Standard, overall disclosure objectives will describe the overall information needs of users of financial statements and require an entity to disclose information that meets those needs. To comply with this requirement, entities will need to consider whether the information provided by complying with the specific disclosure objectives meet those overall user information needs** (paragraph DG6)

- ❖ **We think the fundamental issue to be resolved in the IASB's project is to provide guidance on how the IASB would determine which user information needs warrant disclosure in the (general purpose) financial statements**
 - ▶ **It is impossible to meet all user information needs and the IASB should provide guidance on how it identifies the user information needs that warrant disclosure in the financial statements**
 - ▶ **However, such guidance is not provided in the ED**

What are your views?

3 Two-step judgement in meeting the disclosure objective

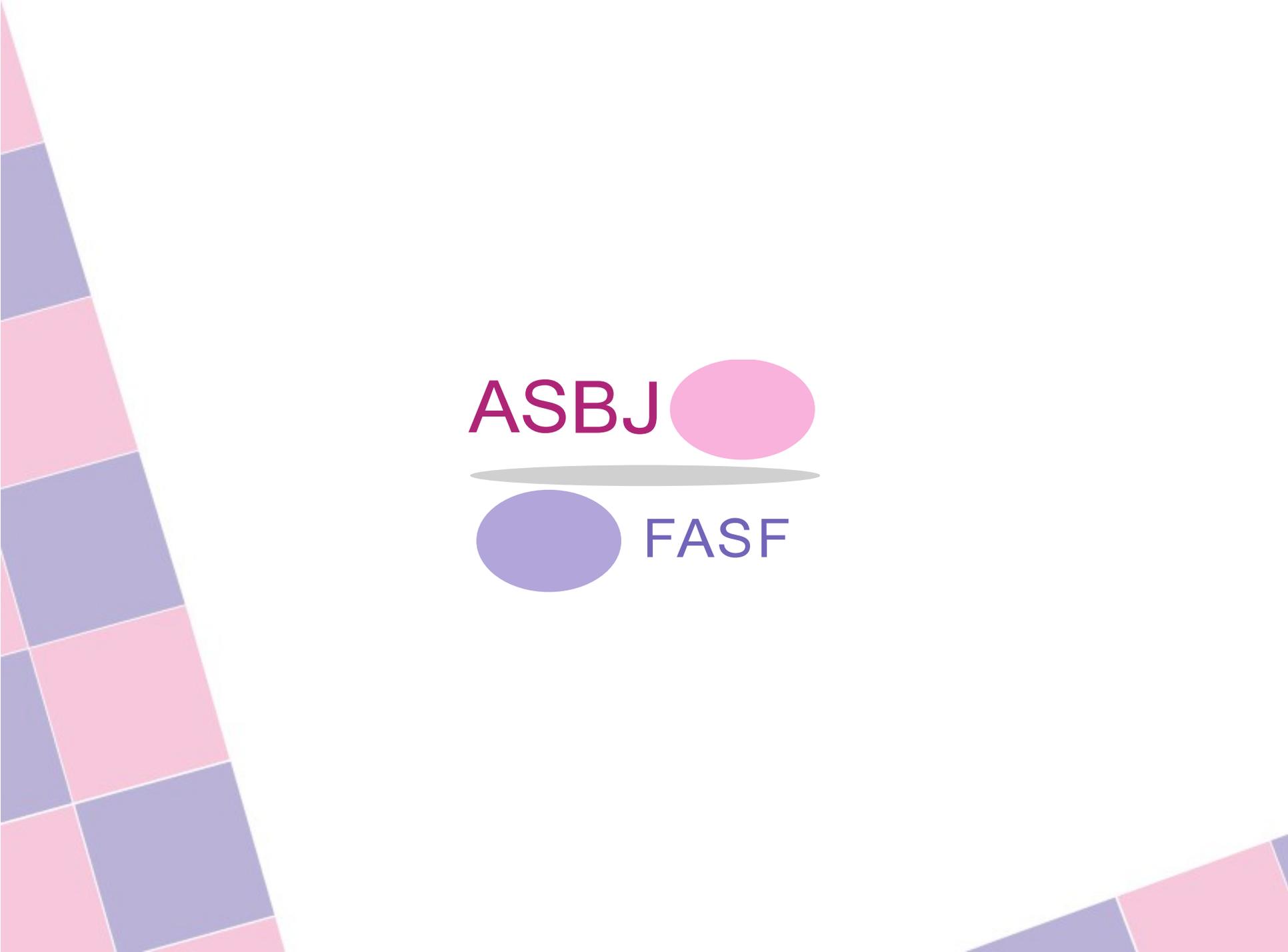
Entities would need to apply judgement to determine the information they should disclose to;

- ▀ **satisfy the specific disclosure objective**
- ▀ **assess whether information provided in the notes by complying with specific disclosure objectives is sufficient to meet the overall user information needs**

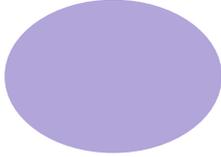
(paragraph DG1)

- ❖ **The IASB should clearly state that the two-step judgement process involves applying the materiality judgement in both steps**
 - ▶ **Step1: Whether information is material in the context of an individual disclosure objective and individual information item**
 - ▶ **Step 2: Whether such information is material from the perspective of the financial statements as a whole**
- ❖ **As a result, there may be information that is material in the context of a specific disclosure objective but would not required to be disclosed from the perspective of the financial statements as a whole**

What are your views?



ASBJ 

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