

The LIAJ's Comments on the Exposure Draft

***Disclosure Requirements in IFRS
Standards - A Pilot Approach***

Proposed amendments to IFRS 13 and IAS 19

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The Life Insurance Association of Japan (LIAJ)

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I. General Comments on the Exposure Draft

1. We, The Life Insurance Association of Japan (or the “LIAJ”), would like to extend our gratitude to the International Accounting Standards Board (or the “Board”) for providing us with the opportunity to submit comments on the Exposure Draft, *Disclosure Requirements in IFRS Standards-A Pilot Approach, Proposed amendments to IFRS 13 and IAS 19* (hereinafter referred to as the “ED”), published in March 2021.
2. The LIAJ is a trade association comprised of all 42 life insurance companies operating in Japan. Its goals are to promote the sound development of the life insurance industry in Japan, maintain its trustworthiness, and thereby contribute to improving the quality of life in Japan. The LIAJ would like to respectfully request the Board to carefully consider the comments submitted from the sole representative body of the life insurance industry in Japan, which accounts for approximately 11%¹ of the world’s life insurance premiums.
3. The LIAJ agrees with the view of the Board that there is the ‘disclosure problem’ in the information disclosed in financial statements prepared in accordance with IFRS Standards, which is that financial statements contain not enough relevant information and ineffective communication of the information provided.
4. In order to resolve this problem, the LIAJ believes information needs to be provided by the entities using their own judgment. In this context, the proposed guidance for developing disclosure requirements in IFRS Standards in future (hereinafter referred to as the “proposed Guidance”) presented by the Board in the ED is consistent with the view of the LIAJ as the LIAJ recognises that the proposed Guidance considers the use of judgement by the entities as the basis for appropriate disclosure. On the other hand, the LIAJ believes the Board needs to take further actions in order to truly resolve the ‘disclosure problem’. For details, please refer to the responses to each question below.
5. Regarding specific amendments to IFRS 13, the LIAJ believes some of the items of information listed by the Board are not considered to be items that enable the entities to meet the disclosure objectives. For details, please refer to the responses to each question below.
6. The LIAJ expects the Board to fully consider the comments from stakeholders on this ED and finalise the proposed Guidance and the amendments to IFRS 13 and IAS 19 in a way that it contributes to a true resolution of the ‘disclosure problem’.

¹ Swiss Re Institute, *sigma* No 3/2021.

II. Responses to the Questions

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?

- 7. To provide truly useful information to users of financial statements in the disclosure of notes to financial statements, the LIAJ believes information needs to be provided by the entities using their own judgement. It is the entity that best understands its own profile, and may be the best to determine what is considered as relevant information.
- 8. On the other hand, since the existing IFRS Standards contain the prescriptive and long lists of disclosure requirements, entities need to apply disclosure requirements as a checklist to meet the disclosure requirements. Therefore, the LIAJ believes this leads to difficulties for the entities to use their own judgement and results in ‘disclosure problem’ such as not enough relevant information and ineffective communication of the information provided in the notes to financial statements.
- 9. As mentioned above, the LIAJ understands the proposed Guidance presented by the Board in the ED considers the entities using their own judgement as an assumption of appropriate disclosure; therefore, it is consistent with the view of the LIAJ.
- 10. Based on the above, the LIAJ agrees with both Questions 1(a) and 1(b). The LIAJ believes that describing the overall information needs of the users of financial statements by overall disclosure objectives would provide the basis for the entities to use their own judgment appropriately.

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?

11. The LIAJ agrees with Question 2(a). Regarding the explanation of what the information is intended to help users do, the LIAJ believes this would provide the basis for the entities to apply their own judgment appropriately.

[No comments on Question 2(b)]

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.

12. The LIAJ agrees with Questions 3(a) through 3(d). The overall and specific disclosure objectives are based on the entities using their own judgment. It is an appropriate approach to require the entities to make disclosures on the basis of using prescriptive language. In addition, the use of less prescriptive language when referring to items of information to meet specific disclosure objectives ensures that the entities will have the opportunity to use their own judgment. However, the LIAJ is concerned that items of information may be prescriptive even if less prescriptive language is used. In this regard, the LIAJ believes the Board needs to take further actions. This point is further addressed in the responses to Question 4.

[No comments on Question 3(e)]

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?

13. Although less prescriptive language such as “While not mandatory, the following information may enable an entity to meet the disclosure objective” is used when identifying items of information, the LIAJ is concerned that the simple act of listing them in IFRS Standards would result in a certain prescriptive nature and be viewed as a recommendation of disclosure even if disclosure is not necessarily required in practice.

14. In such cases, the LIAJ believes the entities will ultimately have to apply items of information listed in IFRS Standards as a checklist. Therefore, the Board’s objective of resolving the disclosure problem of not enough relevant information and ineffective communication of the information would not be satisfied.

15. Therefore, when the Board lists items of information that “may enable an entity to meet the disclosure objective, while not mandatory” in IFRS Standards, the LIAJ believe the Board should clearly state in IFRS Standards that such items of information are intended to help the entities apply their own judgment to determine how to meet the specific disclosure objective, and the

entities are not necessarily required to disclose the items of information.

16. In addition, the Board should avoid presenting overly specific requirements when it lists items of information in IFRS Standards. For example, the Board should have due regards when referring to the nature of disclosed information (whether qualitative or quantitative information) as items of information in IFRS Standards and the format of disclosure (whether tabular or text format). The LIAJ would like the Board to carefully address these matters because the nature of the disclosed information and the format of disclosure are likely to raise concerns in general from the cost-benefit perspective. The LIAJ believes there should be opportunities for the entities to use their own judgments on the nature and format of the information to be disclosed.
17. The LIAJ believes amendments to the proposed Guidance should be considered given the above mentioned comments.
18. Furthermore, the comments mentioned above are related to the responses to Question 7 and 8 so please consider them together.

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).

19. Regarding the existing disclosure requirements in IFRS Standards, the LIAJ believes the actual practice of systematically checking whether the entities comply with the disclosure requirements of IFRS Standards has been established by the auditors. This leads to forcing the entities to apply the disclosure requirements of IFRS Standards as a checklist. Therefore, the LIAJ would like the Board to support the auditors by holding workshops and providing explanation notes so the auditors can deepen their understanding of the new Guidance for developing disclosure requirements in IFRS Standards. This will enable a smooth transition to the completely new practice of auditing disclosures based on the judgment applied by the entities.

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?

[No comments on Question 6]

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.

- 20. The LIAJ does not agree with several items of information that may enable an entity to meet the disclosure objective, while not mandatory listed in paragraph 113 of the Amendments to IFRS 13 *Fair Value Measurement* (hereinafter referred to as the “Amendments to IFRS 13”), which are “(b) the range of alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period” and “(c) an explanation of how the range of alternative fair value measurements in (b) was calculated”.
- 21. First, disclosing items (b) and (c) listed in paragraph 113 of Amendments to IFRS 13 would likely result in misleading investors even if the entities provide qualitative explanations on alternative fair value measurements. The fair value and the range of fair values calculated using alternative inputs were originally determined using inputs which the entities do not consider as the best. Moreover, the entities typically determine these inputs subjectively; therefore, it is anticipated the objectivity and comparability may be impaired resulting in the issuance of inherently less reliable information.

22. Secondly, disclosing such information would impose significant burden on the entities. Although the information is considered as less useful as mentioned above, the entities need to separately calculate hypothetical fair value based on alternative inputs only to meet the disclosure objectives.

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 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.

23. Regarding Question 8(a), the LIAJ questions the usefulness of the items of information required in paragraph 116 of the Amendments to IFRS 13 that is “disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements”. The reason is the users do not necessarily require the information of gross amount presented in tabular format and the preparers do not use such information for management purposes. In addition, the preparation of such information is very burdensome to the preparers. Therefore, the LIAJ believes there should be the opportunity for the entities to use their own judgment on the format of disclosing such items of information. Specifically, the LIAJ would like the Board to allow the entities to explain the reasons for the changes in the Level 3 balance of the fair value hierarchy in text, not necessarily in tabular format. Even if the tabular format is used, it should be allowed to only present a broad category and omit disclosing the breakdown of changes. For example, by disclosing the net changes from the following three categories: “transactions”, “transfers between the levels of the fair value hierarchy”, and “gains and losses for the period”.

24. Regarding Question 8(b), as explained in the responses to Question 7, the LIAJ believes the items of information presented in paragraph 113(b) and (c) of the Amendments to IFRS 13 should be deleted since there is a question about the usefulness of such information. Furthermore, as explained in the responses to Question 4, the LIAJ is concerned that even if less prescriptive language is used regarding items of information, the items of information could have a prescriptive nature. Therefore, when the Board lists items of information that “may enable an entity to meet the disclosure objective, while not mandatory” in IFRS Standards, the LIAJ believes the Board should clearly state in the IFRS Standards that such items of information are intended to help the entities apply their own judgments to determine how to meet the specific disclosure objective and the entities are not necessarily required to disclose the items of information.
25. In addition, regarding Questions 8(a) and 8(b), as explained in the responses to Question 4, the Board should avoid presenting overly specific requirements when the Board lists items of information in IFRS Standards. For example, when referring to the nature of disclosed information (whether qualitative or quantitative information) and the format of disclosure (whether tabular or text format) as items of information in IFRS Standards, the LIAJ would like the Board to carefully address these matters. The LIAJ believes there should be opportunity for the entities to use their own judgments in this regard.

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?

[No comments on Question 9]

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?

[No comments on Question 10]

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?

[No comments on Question 11]

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?

[No comments on Question 12]

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

[No comments on Questions 13]

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?

[No comments on Question 14]

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?

[No comments on Question 15]

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?

[No comments on Question 16]

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?

[No comments on Question 17]

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?

[No comments on Question 18]