INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

2 October 2017

Ref: 17/46

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst,

**RE: Discussion Paper: *Disclosure Initiative—Principles of Disclosure***

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the International Accounting Standards Board (IASB)'s discussion paper (DP) *Disclosure Initiative—Principles of Disclosure.*

As we have stated previously, we believe it is important to improve the quality of the disclosures provided so as to better meet the needs of stakeholders. The IASB's Conceptual Framework focusses on the financial information needs of potential investors, lenders and other creditors in making decisions about providing resources to the entity. Prudential regulators and supervisors are also stakeholders that use, rely and promote financial statement disclosures and the market discipline that arises from transparency - therefore, the IAIS supports the IASB's broad-based Disclosure Initiative which is exploring how to make disclosures more effective in the financial statements.

Overall, the IAIS believes that firms may be incentivised by a number of commercial, systems-related or other considerations to provide disclosure that may not be optimal for users. This is ultimately a behavioural issue, but well-articulated disclosure principles can assist in both encouraging thought among preparers and enabling auditors to challenge firms more effectively. As noted in the IAIS comment letter to the IASB on the 2015 Exposure Draft *Conceptual Framework for Financial Reporting*, the IAIS believes that Chapter 7 of the Conceptual Framework should be revisited once the work of this project is complete to consider disclosure principles.

In doing so, disclosure objectives need to map clearly to detailed requirements, since disclosure objectives that are too high-level risk having little influence in practice. The IAIS is also keen that IFRS disclosures remain in the annual report, which in the IAIS's view should be a defined term for this purpose.

The annex to this letter provides more detailed responses to the questions 1, 2, 3, 5, 11-15 set out in the DP. This annex was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG). The AAWG`s membership represents a subset of all IAIS members.

If you have further questions regarding this letter, please contact Mark Causevic at the IAIS Secretariat (tel: +41 61 280 8323; email: mark.causevic@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,

Victoria Saporta
Chair, Executive Committee

Elise Liebers
Acting Chair, Financial Stability and Technical Committee

## Annex: IAIS Responses to Questions set out in the Discussion Paper entitled *Disclosure Initiative—Principles of Disclosure*

### Section 1—Overview of the 'disclosure problem' and objective of this project

| **Question 1** |
|---|
| **Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes.**<br><br>**(a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?**<br><br>**(b) Do you agree that the development of disclosure principles in a general disclosure standard (ie either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?** |

**(a)** The IAIS agrees that overall disclosure problem is ineffective communication. Table 1.1 within the DP parses the overall issue into broad categories that, whilst relevant, arguably overlap and so may not be helpful. For example, including some irrelevant information can also be viewed as ineffective communication of the information provided. The IAIS believes that it would be better to simply focus on the more granular clusters of issues as the DP attempts to outline in paragraph 2.4.

We agree with the IASB's assessment that its main causes appear to be difficulties with entities applying judgement when deciding what information to disclose in financial statements and the most effective way to organise and communicate it.

As we stated in our response to the IASB's 2014 ED on narrow-scope amendments to IAS 1, it has always been our view that preparers of financial statements should be expected to apply reasonable and sensible judgement in considering disclosure requirements within the IFRSs, and that the barriers to doing so are in the minds of those not reading the standards sensibly.

That said, the IAIS recognises that firms may be incentivised in a number of ways to provide disclosure that is not optimal for users. Reasons for this can include the following:

- firms may wish to present a certain positive picture of their financial position and performance to investors, and certain disclosures may provide additional insight or nuance that complicates that picture;
- firms are bound by the disclosure requirements that are contained in accounting standards and elsewhere, but high-quality disclosure is qualitative in nature and often there is no penalty in not providing it, as long as compliance with relevant requirements can be demonstrated;
- firms tend to look at the nature and extent of information that their competitors provide, and may be reluctant to incur the cost of providing enhanced disclosure if there is no industry consensus to do so; and
- firms' systems may not be geared towards providing the most relevant information in any given period. Similarly, those who are closest to the data within firms may not have sufficient oversight of the business as a whole to provide a coherent narrative to

accompany numeric information. The result can be that firms provide a ‘data dump’ of information that may not be useful to users.

For reasons including the above, a strong emphasis on compliance with requirements can contribute to a checklist mentality amongst preparers (as well as amongst auditors and regulators), with the application of judgement being perceived as a potential compliance risk rather than a desired outcome.

While a lack of guidance on the content and structure of disclosures in the notes may also contribute to these behavioural difficulties, we do not believe it to be a leading cause. The need to apply judgement is a necessary aspect of principles-based standards, and so developing prescriptive guidance around disclosure considerations is not a remedy to the problem.

**(b)** Since the IAIS believes that, ultimately, ineffective communication is a behavioural issue, the IAIS does not believe the development of disclosure principles in a general disclosure standard would fully address the disclosure problem. However, the IAIS believes it would help to reduce ineffective communication to the extent that it provides some preparers with the confidence necessary to apply judgements, and create a better environment for thoughtful disclosure. The articulation of clear disclosure principles to supplement concrete disclosure requirements may also make it easier for external parties, such as auditors or prudential supervisors, when challenging firms’ disclosure policies.

We also note that IFRSs and IASs that are currently effective were developed across a broad timeframe, and that the disclosure material contained within them varies in terms of its length and complexity. Therefore it appears reasonable to undertake a project whereby common disclosure principles that govern the full range of accounting standards are considered.

We would also note that any such principles would need to be clear that, for certain business models or types of activity, high quality disclosures in certain specific areas are likely to be key to understanding the nature and extent of risk in the entity. For example, disclosures that assist users to understand the risk inherent in insurance activities would need to address the nature of key judgements in insurance and financial risk, and the sensitivity of the financial statements to them. These judgements are likely to be more material in understanding the financial statements than those addressed in certain other disclosure requirements. We would welcome disclosure principles that make clear the need for disclosures to deliver key information rather than significant volumes of data: an entity’s most significant current and emerging risks should be included, but disclosures that do not add value to users’ understanding or do not communicate useful information should be avoided.

Whilst we support the development of common disclosure principles, we also note that such principles are unlikely in themselves to be sufficient in addressing the disclosure problem. The behavioural issues in applying judgement on disclosure matters stem from a defensive posture taken by preparers in response to a strong emphasis by auditors and regulators on compliance with requirements, significant time pressures to complete/ release financial statements, and the characteristics of the preparers themselves in terms of having the necessary experience and confidence to apply judgements that may risk challenge by others.

As a result, to fully address the problem the mind-set of preparers, auditors and regulators will need to change such that the current strong focus on compliance shifts to addressing the disclosure problem, so that not applying reasonable and sensible judgements in disclosure matters becomes itself a key compliance issue. Disclosure principles will only go so far in encouraging this shift in mind-set, but the two potential benefits identified above: that disclosure principles can provide preparers with the confidence to apply judgements and so create a better environment for thought, and that disclosure principles can make the audit more effective, mean that there is value in articulating them. Focussed education and training with case studies are likely to be more important contributors to developing such a change in mind-set over time.

| **Question 2** |
|---|
| **Are there any other disclosure issues that the Board has not identified in this Discussion Paper that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?** |

As we indicated in the response to the previous question, the overall issue is ineffective communication. Examples of how this problem can manifest itself can be clustered into various granular categories of issues as per the approach in paragraph 2.4 and the IAIS believes that such an approach is more helpful than the parsing of the overall issue into broad categories as in table 1.1.

In starting with the parsing of the overall issue into the broad categories outlined in table 1.1, the IAIS believes that DP then focusses too narrowly on ineffective communication *of the information provided*, not effectively addressing within paragraph 2.4 and the proposed principles of disclosure the clusters of issues relating to the inclusion of irrelevant information and the non-inclusion of enough relevant information.

The IAIS believes that the principles of disclosure project should holistically address the disclosure problem of overall ineffective communication, as well as focus on the narrower DP defined category of ineffective communication *of the information provided.* This entails the development of broader disclosure principles that consider the nature of disclosure as a whole, before focussing on the nature of the exact information provided. Aiming the proposed principles of disclosure to address only this more narrowly defined category of the disclosure problem risks muting the possible effect of the project, as ‘partial solutions’ are often not effective solutions.

## Section 2—Principles of effective communication

| **Question 3** |
|---|
| **The Board’s preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance.**<br><br>**The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22.**<br><br>**(a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not?**<br><br>**(b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why?**<br><br>**(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance?** |

**(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?**

**If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.**

**(a)** Yes, the IAIS believes that the Board should develop principles of effective communication that entities should apply when preparing the financial statements. Further, it should do so to address the overall issue of ineffective communication, not just focus on the narrower DP defined category of ineffective communication *of the information provided.*

While the IAIS does not believe the development of disclosure principles in a general disclosure standard will fully address the disclosure problem, it is a starting point which may help to reduce the disclosure problem over time.

**(b)** The IAIS believes the principles listed in paragraph 2.6 should be expanded since, as stated in the responses above, the focus is currently on the narrower DP defined category of ineffective communication *of the information provided.*

The principles of effective communication should not start out with the sentence "*The information provided should be:*", but rather with a broader scope in mind, perhaps stating '*Information can be communicated within the financial statements most effectively if it is*:' Further, the broadening of the scope of the principles allows for additional principles such as:

- meaningful, such that it highlights main activities and all significant risks which add value to users' understanding and faithfully represents the transaction(s);
- comprehensive in terms of its relevance, such that main activities and significant risks are supported by sufficient and useful underlying information for stakeholder decision-making;
- focussed on material considerations, which also means not including information that is considered irrelevant; and
- balanced and objective, so as to be more useful for stakeholder decision-making.

Additional proposed principles such as these would help to refocus the proposed principles onto the overall problem of ineffective communication.

**(c)** Mandatory guidance would be more effective. As noted in the IAIS comment letter to the IASB on the 2015 Exposure Draft *Conceptual Framework for Financial Reporting*, the IAIS believes that Chapter 7 of the Conceptual Framework should be revisited once the work of this project is complete. The IAIS considers that it is most appropriate to link the principles of effective communication within the Conceptual Framework document. To do so, however, the principles would need to be refashioned along the lines suggested in the IAIS's response to question 3(b) above.

**(d)** The IAIS notes that IFRS 17 and IFRS 9 already contain non-mandatory illustrative examples and the IAIS believes that this approach in the context of individual standards is sufficient. The IAIS believes that it is unlikely that higher-level guidance on the use of formatting in financial statements that is intended to be used generically across industries would be appropriate to apply to an insurance company.

## Section 4—Location of information

| **Question 5** |
|---|
| **The Board's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c).**<br><br>**(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?**<br><br>**(b) Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)–(c)?** |

**(a)** In general, the IAIS agrees with the principles indicated in section 4.9(a)-(c). The IAIS supports the view that a specific topic should be discussed and explained in one place within the annual report, enabling a comprehensive understanding of that topic, rather than splitting the information in various parts of the document.

We support the concept to keep financial statement information within the annual report and therefore we consider it compulsory to have a definition or description of the annual report (reference paragraphs 4.19, 4.10, and 4.22). Any cross-referencing outside the defined annual report hampers the reading of the financial statement information because it can become too fragmented and would not serve the users of the financial statement information.

Paragraph 4.23 indicates that a similar description of the annual reporting package as currently presented in the ED to IFRS 8 and IAS 34 shall be included in para. 4.9. We support the idea of having a link within the same definition for the same things. We doubt that the current definition of the annual reporting package has the same meaning as the annual report. The description may be clearer on the possible content of an annual report and not in all information produced around the annual report to serve a wide range of stakeholders. The following paragraph referred to as annual reporting packages includes also documents such as press releases and additional investor presentations. This perhaps suggests that the cross-referencing of IFRS information is to such statements only and is not in the "official annual report". We therefore suggest that this type of information is not included in the definition of the annual report. The following paragraph may be adjusted: "*In addition to the annual financial statements, the annual reporting package may include a management commentary, ~~press releases, preliminary announcements, investor presentations and information for regulatory filing purposes~~.*"

We also take the view that additional regulatory information can be useful to the reader of the financial statements but it should be included as non-IFRS information within the financial statements rather than cross-referenced to the relevant information packages.

**(b)** We agree that paragraph 4.3 indicates the main examples of possible places to cross-reference IFRS-information. The description allows other topics as well and to add more specific examples might be misleading, giving the impression of a complete list. However, other possible specific topics within the annual report might be management remuneration as well as capital management.

## Section 7—Centralised disclosure objectives

| Question 11 |
|---|
| **The Board's preliminary view is that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes.**<br><br>**Centralised disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements.**<br><br>**Do you agree that the Board should develop centralised disclosure objectives?**<br>**Why or why not? If you do not agree, what alternative do you suggest, and why?** |

We noted in our response to Question 1(b) that IFRS and IAS standards have been developed over a long period of time and that there may be merit in assessing whether the disclosure requirements contained within those standards are consistent in their overall objectives and detailed requirements. Furthermore, some standards contain disclosure requirements without explicit objectives, as noted in paragraphs 7.6. and 7.7. We agree that detailed requirements without objectives are less likely to be useful to users.

In line with our answer to question 1, we do not believe that the development of disclosure objectives in itself is sufficient to solve the disclosure problem. However, centralised disclosure objectives can help in introducing consistency and tailoring disclosure requirements in a way that is more likely to encourage thought and produce an outcome that is more useful to users and supportive of the external audit process. In order to be effective, however, these objectives should be able to be mapped to detailed requirements in a way that ensures that they will make a difference to firms' actual practices. Where objectives are developed at too high a level, they may have little effect in practice as entities may conclude that they already comply with them. Further material that ensures that an entity considers the focus, understandability, relative level of detail and mapping to an entity's underlying activities of the disclosures it provides, and how its approach relates to its exact application of the requirements of individual standards, is needed to ensure that a list of objectives is meaningful in practice.

| Question 12 |
|---|
| **The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralised disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards:**<br>**● focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or**<br>**● focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B).**<br><br>**(a) Which of these methods do you support, and why?**<br><br>**(b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section.** |

(a) We believe that the ideas contained both in Method A and Method B are useful in the context of developing overall disclosure objectives. We would tend towards the conclusion that the development of a hybrid approach may be the best solution, but the material on the hybrid approach that is given in paragraphs 7.34-37 is not yet sufficiently developed for us to form a view on its appropriateness.

Method A, which appears largely to be built on how disclosure requirements are articulated today, contains a number of types of information (such as the breakdown of key items in the primary statements per 7.17 (c)) that are common across different accounting standards. We are aware that, in some cases at least, users make wide use of such disclosures: for example, the requirements under IFRS 7 and IFRS 13 around showing breakdowns of financial instruments between three levels based on the observability of inputs used in fair value calculations is very well-known.

Other types of information contained in 7.17, such as events after the balance sheet date, or articulation of significant accounting policies, appear to be based on the disclosure requirements of specific extant standards. Without further information as to how more detailed material would be developed around these headings, it is difficult to see whether the application of Method A would result in changes to disclosure requirements in these areas, or merely provide a new framework for existing requirements.

We believe that Method B is intuitively attractive and, if developed further, has the potential to address the concern that disclosures are viewed as a checklist and therefore that the information provided can be made more meaningful to users. In the response to Question 1 above, the IAIS mentioned the need for disclosures to deliver key information. In the area of insurance, where premiums are received before services are provided, investment horizons can be long and asset-liability matching forms a core part of the business model, it is essential that users understand the disclosures provided in the context of an entity's activity.

On the other hand, the IAIS believes that further development of such an approach is required before it can come to a view in practical terms as to whether such an approach is workable. Since this project does not aim to change the nature of primary financial statements, the activity-focussed information required to be disclosed under Method B does not at first sight appear easy to reconcile to them. And since businesses operate in many different ways, it may be difficult in practice to articulate meaningfully how information should be provided in practice in a way that is relevant across industries. For example, the difference between operating, investing and financing activity does not exist in the same way in financial institutions as it does in other industries.

(b) The IAIS supports further investigation into how a 'hybrid' approach might work in practice. Whilst much can be done to improve the quality of disclosure and the internal consistency between IFRSs, the IAIS does not believe that the disclosure model contained in IFRS standards is fundamentally broken. Therefore, there is a need for overarching disclosure principles that build on the areas listed in Method A and provide clarity and consistency across areas of disclosure that are currently covered by different standards.

That said, the IAIS believes that the IASB should use this project to look to improve the quality of disclosures provided by entities, as well as achieve internal consistency within the IFRS framework. In particular, disclosures could be more meaningful in the context of the business activities of an entity. For example, insurers today provide a wide variety of non-GAAP information intended to bridge the gap between statutory financial statements and information that is specific to insurers. A framework that enables insurers to use statutory financial information in providing such additional disclosures would bring better comparability, and enable entities to reconcile this additional information to their primary financial statements. However, thought needs to be given to exactly how disclosure principles that are activity-focussed should be articulated in order to ensure they are relevant to any particular business model.

Furthermore, in using an activity based approach or 'hybrid' approach may have a consequence on the idea to classify non-IFRS information in disclosures as described in section 4. The classification of certain business activities as non-IFRS information may become obsolete because this information, together with specific requirements on risk disclosure, may be covered under centralised disclosure objectives and therefore classified as IFRS information.

| **Question 13** |
|---|
| **Do you think that the Board should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?** |

As noted in the IAIS comment letter to the IASB on the 2015 Exposure Draft *Conceptual Framework for Financial Reporting*, the IAIS believes that Chapter 7 of the Conceptual Framework should be revisited once the work of this project is complete.

The IAIS believes that a single standard governing disclosure would be desirable in principle, and in the case of Method B, it would be essential to articulate activity-focussed disclosure objectives in practice. However, it may be difficult to demonstrate that such a standard can set out high quality disclosure requirements at a sufficient level of detail that can be applied in practice across different business models. As noted above, there are individual disclosure requirements (such as around fair values for financial instruments) required by individual standards that have gained wide acceptance among users, and it is difficult to see how such requirements can be put together into a coherent single standard across industries that is written at a sufficiently detailed level. Therefore, the IAIS believes that there remains a role for disclosure requirements within individual standards.

Rather than create a single disclosure standard, we would encourage the IASB to consider revisiting Chapter 7 of the Conceptual Framework, which might be used to link the framework around disclosure in a more comprehensive way than is currently the case. Individual standards would then include disclosure objectives and requirements based on common principles that are linked in the Conceptual Framework.

## Section 8 - New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards

| **Question 14** |
|---|
| **This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards.**<br><br>**(a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?**<br><br>**(b) Do you think that the development of such an approach would encourage more effective disclosures?**<br><br>**(c) Do you think the Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not?** |

**Note that the Board is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB staff's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).**

In line with the IAIS's response to question 11, the IAIS believes that centralised disclosure material should be able to be mapped to detailed requirements in a way that ensures that they will make a difference to firms' actual practices. In this context, the use of a tiered approach to disclosure requirements may be a useful way in linking overall high-level objectives with more detailed requirements.

The IAIS also noted in the response to question 11 that, if overall objectives were developed at too high a level, they may have little effect in practice. We believe that high-level requirements that disclosures should help users understand "the effect of X or Y on the financial position, financial performance and cash flows of the entity" are not useful in driving high quality disclosure in practice unless accompanied by further wording that is more specific to the item in question.

| **Question 15** |
|---|
| **Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4).**<br><br>**Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives.**<br><br>**Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.** |

The IAIS agrees that the drafting of disclosure requirements can contribute to the disclosure problem and that the development of centralized disclosure objectives, whilst not a panacea, can assist in addressing the problem.

In terms of prescriptive disclosure requirements, the IAIS agrees that a 'checklist' mentality might develop among preparers if disclosure requirements are too detailed and prescriptive. However, the IAIS is also of the view that comparability is important and, in some cases, can only be achieved through the use of prescribed disclosures. The problem is therefore not necessarily that prescriptive disclosure requirements exist, but rather that, in certain standards, they may be required at too granular a level. The IAIS recommends that the IASB consider how a balance is best struck such that disclosures are of high quality but also comparable. The use of a tiered approach, where prescribed disclosures are required for some items but not others, may be worth exploring in this regard.