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Draft Comment Letter

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Comments should be submitted by [date].

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX Month 201X]
Dear Dr Andreas Barckow

Re: Disclosure Requirements in IFRS Standards—A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the exposure draft *Requirements in IFRS Standards—A Pilot Approach* (Proposed amendments to IFRS 13 and IAS 19) issued by the IASB on 25 March 2021 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG welcomes the development of rigorous methodology to define objective-based disclosure requirements, with the same level of depth and scrutiny as requirements for recognition and measurement. In the 2012 Discussion Paper *Towards a Disclosure Framework for the Notes*, EFRAG, the ANC and the UK FRC called for such initiative and in its 2017 comment letter in response to the IASB's Discussion Paper *Principles of Disclosures*, EFRAG reiterated its support.

However, EFRAG considered that a necessary preliminary step is to clarify the role (and therefore the boundaries) of the notes and ensure that the overall and specific objectives developed at Standard-level are consistent with that role. Therefore, EFRAG encourages the IASB to consider the interactions of the proposals in the ED with the amendments that may result from IASB's Exposure Draft 2019/7 *General Presentation and Disclosures* regarding the proposed definition of the role of the notes to financial statements.

EFRAG is also concerned that the proposals in the ED to develop overall and specific objectives for disclosure in IFRS Standards, without requiring disclosure of specific items (or only a very limited number of them), risks to result in application challenges for preparers and increased enforcement challenges and may ultimately impair comparability of information.

Although EFRAG supports the reduction of detailed checklist of disclosures, we do not support the complete elimination of such requirements. As exemplified in the application of the proposals to IFRS 13 and IAS 19, EFRAG considers that some minimum disclosures may be always needed to meet the overall and specific objectives and should be required when this is the case. Therefore, we consider that the challenge in applying the proposed approach is really down to the IASB being able to strike a right balance between a tier of always required disclosures (that ensure a minimum level of comparability) and the application of objectives to have additional entity-specific disclosures.

EFRAG therefore recommends that, before finalising the proposals in the ED a comprehensive outreach and field testing of the proposals are undertaken, to assess the operational challenges for preparers, enforcers and auditors. The purpose of such extensive field-testing would be to identify potential implementation and application concerns, to determine whether there is a need for additional guidance, and to estimate the costs and benefits of the proposals.

EFRAG also suggests that the IASB considers the experience from its recent initiatives to foster the use of judgement and materiality assessment and assesses the effects of its most recently issued Standards which contained objectives for disclosure.

EFRAG also recommends that the IASB:

- (a) further considers and explains the relationship between the overall and specific disclosure objectives, from one side, and the concept of materiality, from the other side, as this is essential to an understanding of the proposals;
- (b) in developing objectives for a specific Standard, considers the other existing disclosures objectives and requirements in other standards, to avoid inconsistencies or redundancies;
- (c) further considers the interactions between the proposals in the ED and the developments in digital reporting; and
- (d) explains whether and how the objectives also serve the stewardship objective of financial reporting.

EFRAG have also considered the application of the proposed approach to IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*. EFRAG's detailed comments and responses to the questions on IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement* are set out in the Appendix. However, EFRAG considers that it is not in a position to express definitive views on the proposed changes and their expected effects, until we have conducted appropriate outreach and field testing.

In particular, EFRAG notes that the impact of the proposals will depend on the behaviour of the preparers and their appetite to reduce the amount of information they currently disclose. Differently to the case of other Amendments, missing clear shortcomings in the current requirements of IFRS 13 and IAS 19 that would justify a change, other than to remedy to a possible excess of non-material disclosure, assessing the benefits is even more important. EFRAG considers it essential that any proposed change to the existing requirements is justified by an appropriate cost/benefit balance and notes that, in assessing the benefits, it is necessary in this case to also consider the potential for a loss of material and relevant information that is currently provided. As expressed above, a critical feature of the revised approach to the disclosure is to define an appropriate set of minimum requirements. Understanding the potential for a loss of information would provide input on such minimum requirements.

EFRAG's detailed comments and responses to all the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Almudena Alcalá, Hocine Kebli, Juan José Gómez or me.

Yours sincerely,

Jean-Paul Gauzès

President of the EFRAG Board

DRAFT

Appendix - EFRAG's responses to the questions raised in the ED

Proposed Guidance for developing disclosure requirements in IFRS Standards in future

Notes to constituents – Overall disclosure objectives

- 1 *The ED proposes a new approach for the IASB to develop disclosure requirements in the future that would:*
 - (a) *require entities to comply with overall disclosure objectives that describe the overall information needs of users of financial statements;*
 - (b) *require entities to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements, and define a minimum list of disclosure that will be always required to satisfy these objectives; and*
 - (c) *identify items of information that, while not mandatory, can be considered in assessing whether and how to meet the overall and specific objectives.*
- 2 *The ED suggests the use of overall disclosure objectives within individual IFRS Standards to provide a narrower, more Standard-specific focus than the objectives of general purpose financial reporting and financial statements in the Conceptual Framework for Financial Reporting and IAS 1 Presentation of Financial Statements.*
 - (a) *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.*
 - (b) *To comply with this requirement, entities will need to consider whether the information provided by complying with the specific disclosure objectives meets those overall user information needs. For example, to comply with the overall disclosure objectives in a Standard, an entity might need to provide additional, entity-specific information that is not directly required by the specific disclosure objectives in that Standard.*
- 3 *Overall disclosure objectives may also provide context, and incorporate other broad considerations, that entities are required to consider when applying the specific disclosure objectives in an IFRS Standard. For example, the proposed overall disclosure objectives of IAS 19 might incorporate considerations about aggregation and disaggregation specific to the disclosure section of the Standard.*
- 4 *It has to be noted that Three IASB members voted against the publication of this ED. They are concerned that applying the proposed Guidance will not help to solve the disclosure problem. In particular, in their view, developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items will (a) increase enforcement challenges; (b) be more burdensome for preparers of financial statements and increase reliance on materiality judgements; and (c) impair comparability for users of financial statements by introducing a more flexible approach to disclosures.*
- 5 *They agree that developing disclosure objectives that clearly articulate the information needs that disclosures should satisfy can assist in addressing the disclosure problem. They agree that the IASB could improve disclosure requirements by adding such objectives to IFRS Standards. However, the approach in the proposed Guidance not only adds disclosure objectives but increases the emphasis on the requirement to meet a disclosure objective. In applying that approach, rather than specifying particular items that are required to be disclosed*

to meet an objective, in most cases, only a non-mandatory list of items that may enable a preparer to meet the disclosure objective would be provided.

Question 1 – Using overall disclosure objectives

Paragraphs DG5–DG7 of the ED explain how the IASB proposes to use overall disclosure objectives in future.

- (a) Do you agree that the IASB 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?

EFRAG's response

EFRAG welcomes the development of rigorous methodology to define objective-based disclosure requirements, with the same level of depth and scrutiny as requirements for recognition and measurement.

Overall and high-level objectives prompt entity to step back and consider, after having addressed all the specific disclosure objectives, whether the information as a whole is appropriate to respond to the users' needs.

However, EFRAG considers that a necessary preliminary step is to clarify the role (and therefore the boundaries) of the notes to financial statements and ensure that the overall and specific objectives developed at Standard-level are consistent with that role.

EFRAG also recommends that the IASB further considers and explains the relationship between the overall and specific disclosure objectives, from one side, and the concept of materiality, from the other side, as this is essential to an understanding of the proposals.

Finally, EFRAG also recommends that, in developing objectives for a specific Standard, consideration should be given to the other existing disclosures objectives and requirements in other standards to avoid inconsistencies or redundancies.

Objective-based disclosure requirements

- 6 EFRAG is generally supportive of the development of disclosure requirements that are based on clear objectives. In its 2012 Discussion Paper *Towards a Disclosure Framework the Notes*¹, EFRAG suggested, in particular, that:
 - (a) disclosure requirements should be principle-based and must achieve the appropriate level of proportionality to the entity's users' needs and meet a reasonable cost-benefit trade-off in all circumstances;
 - (b) disclosures need to have objective(s) distinct from other objectives within the Conceptual Framework, specifically from the objectives of recognition, measurement and presentation;
 - (c) disclosure requirements should be developed and justified with the same level of depth and scrutiny as requirements for presentation, recognition and measurement; and

¹ [Towards a Disclosure Framework for the Notes](#) (EFRAG – July 2012)

- (d) consistency in the way disclosure requirements are set is necessary, including in the level of granularity.
- 7 These views were reiterated by EFRAG in its response to the IASB's 2017 *Principles of disclosure* Discussion paper² where EFRAG supported the further exploration of how to achieve a more holistic and unified approach in developing disclosure objectives.
- 8 EFRAG therefore welcomes the development of a unified and rigorous methodology to draft disclosure requirements (as explained in BC28 to BC47) that starts with the understanding of the issues with information that users of financial statements currently receive, understanding what disclosures are required to support the proposed recognition and measurement requirements, performing a cost-benefit analysis and understanding and documenting the effects of disclosure proposals.

Setting up overall disclosure requirements (in addition to specific ones – see our response to Question 2) has the benefit to prompt entities to step back, after having addressed all the specific disclosure requirements, consider whether the information as a whole in relation to a topic meets users' information needs for that topic. For example, high level objectives might lead an entity to provide additional entity specific information that is not directly captured by a particular specific disclosure objective.

Defining the role of the Notes

- 9 EFRAG considers that a necessary preliminary step would be to clarify the role (and therefore the boundaries) of the notes to financial statements (e.g., information that should be provided in financial statements and information that belongs outside financial statements). In both its 2012 Discussion Paper and its response to the IASB Principles of Disclosure Discussion Paper, EFRAG considered that defining the role (and therefore the boundaries) of the notes was essential in addressing the disclosure problem and making disclosures more relevant.
- 10 EFRAG observes, in that respect, that in the exposure draft *General Presentation and Disclosures*, the IASB has consulted on a proposed role³ for the Notes. The outcome of this project is not known. We encourage the IASB to consider the interactions between the two projects and the effects of the future deliberations. In particular consideration should be given as to how the overall and specific objectives proposed in the ED can be related to the role and objectives of the Notes as a whole.

Interaction with materiality assessment

- 11 EFRAG observes that the ED does not explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality.
- 12 In that regard, EFRAG observes that paragraph DG4 of the ED states that the IASB 'to the extent possible, avoid making generic or overarching references to materiality in the disclosure sections of individual IFRS Standards. This is to reinforce materiality as an overarching concept that applies across all Standards, including all disclosure requirements'.

² [EFRAG's comment letter in response to the IASB's Discussion Paper DP/2017/1 Disclosure Initiative - Principles of Disclosure](#) (October 2017)

³ The proposed role of the notes is to: (a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and (b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements

- 13 Although we understand that materiality is an overarching principle and needs not be repeated in each and every IFRS Standard, we consider that it is essential to clarify the interactions between:
 - (a) the proposed specific principles which are supposed to reflect the ‘information ‘needs’’ of users; and
 - (b) the concept of materiality which refers to information which omission, misstatement or obscuring ‘*could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements*’.
- 14 Information that ‘users need’ to understand a specific element may vary depending on the type of users and that information may not necessarily overlap with the information that influence their decisions if omitted or misstated.
- 15 Some of the specific disclosure objectives may not be material in the specific context of an entity. It is therefore important to provide guidance on how entities assess the materiality of the specific objective in their specific context.
- 16 Additionally, the qualitative aspects of materiality, when applied to disclosures, could also be outlined. For instance, disclosures about transactions with related party or about Management compensation may be material even if their amount is low.
- 17 EFRAG recommends that the IASB further consider and explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality as this is essential to an understanding of the proposals.

Notes to constituents – Specific disclosure objectives

- 18 *Within the context of an individual IFRS Standard, specific disclosure objectives will describe the detailed information needs of users of financial statements and require an entity to disclose all material information that enables the user understanding described in the objectives to be achieved.*
- 19 *Specific disclosure objectives will require entities to apply judgement effectively because, in order to comply with the objectives, entities will need to assess whether the information provided is sufficient to meet detailed user information needs.*
- 20 *The specific disclosure objectives will be accompanied by a separate paragraph that provides context by explaining how the information provided to meet those objectives is used by users of financial statements.*
- 21 *By focusing the compliance requirement on specific disclosure objectives, the IASB will require entities to apply judgement and focus their disclosures on information that is material in their own specific circumstances. By identifying specific items of information in the Standards the approach is expected to help to achieve some form of comparability of information between entities for which similar information is material.*

Question 2 –Using specific disclosure objectives and the disclosure problem

Paragraphs DG8–DG10 of the Exposure Draft explain how the IASB 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?

EFRAG's response

EFRAG welcomes the development of specific disclosure objectives to help entities identify which information they have to disclose. If disclosure objectives are expressed too generically, they are not helpful in determining the specific information to disclose. A combination of overall and specific disclosure requirements is therefore desirable.

However, EFRAG observes that, for the purpose of the testing, the proposed disclosures objectives for IAS 19 and IFRS 13 were developed in isolation, as part of the discussions on each standard, and the relationships with the other disclosure requirements in other IFRS Standards (including the general requirements in IAS 1) do not seem to have been considered.

EFRAG supports a more holistic and unified approach in developing disclosure objectives to avoid inconsistencies or duplications across IFRS Standards. In developing disclosure objectives for a Standard, consideration should be given to:

- the existing disclosure requirements in other IFRS Standards; and
- the overarching objectives of general-purpose financial statements within the Conceptual Framework and IAS 1.

EFRAG understands that the specific objectives are developed based on the decision-usefulness of the information for users of financial statements. However, EFRAG invites the IASB to explain whether and how the objectives also serve the stewardship objective of financial reporting.

Setting up specific disclosure objectives

- 22 EFRAG considers that if disclosure objectives are expressed too generically, they are not helpful in determining the specific information to disclose. Conversely if the objectives are defined too narrowly, they may be considered as rules. In its comment letter in response to the Principles of Disclosure DP EFRAG considered that a combination of overall and specific disclosure requirements would be desirable.
- 23 General disclosure requirements have the benefit to act as 'catch all' objectives prompting entities to step back, after having addressed all the specific disclosure objectives, to consider as a whole the disclosure relating to a topic and whether the information provided meets users' information needs for that topic.
- 24 For example, high level objectives might lead an entity to provide additional entity specific information that is not directly captured by a particular specific disclosure objective and may help provide a link to the overarching objectives of general purpose financial reporting within the Conceptual Framework and IAS 1.
- 25 In testing the proposed approach on two selected IFRS Standards, the IASB seems to have also developed their respective disclosures objectives in isolation.

- 26 EFRAG supports a more holistic and unified approach in developing disclosure objectives to avoid inconsistencies or duplications across IFRS Standards. In developing disclosure objectives for a Standard, consideration should be given to
- (a) the existing disclosure requirements in other IFRS Standards; and
 - (b) the overarching objectives of general-purpose financial statements within the Conceptual Framework and IAS 1.

Identification the needs of users

- 27 EFRAG agrees that the consideration of the usefulness of the disclosures for users' decision making is key in developing disclosure requirements.
- 28 As a matter of fact, in its 2017 comment letter in response to the IASB's Principles of Disclosure DP, EFRAG stated that *'in undertaking its standard-level review the IASB should further consider how users currently use the information in the financial statements and to explore whether there is any information that would be helpful but is not currently provided in the financial statements. In doing so, that the IASB should consider the balance between benefits of the information to users and costs to preparers of providing that information.'*
- 29 However, EFRAG observes that general purpose financial report serves a double objective to
- (a) provide information for primary users' needs about the resources of the entity to assess an entity's prospects for future net cash inflows; and
 - (b) how effectively and efficiently management has discharged their responsibilities to use the entity's existing resources (e.g., stewardship).
- 30 We observe that no mention is made to the stewardship objective in the proposed ED and how that objective could be met by meeting the proposed overall and specific objectives.
- 31 EFRAG considers that it is essential that the ED better explains how it has determined that the application of the proposed overall and specific objectives would result in providing information that how is useful to users in both:
- (a) Making decisions relating to providing resources to the entity; and
 - (b) Assessing management's stewardship.

Notes to constituents – level of judgement

- 32 *The approach suggested in the ED aims to shift the focus from applying disclosure requirements like a checklist to determining whether a specific disclosure objective has been satisfied by:*
- (a) using the prescriptive language 'shall' to require entities to comply with disclosure objectives in the Standards; and
 - (b) typically using the following less prescriptive language when referring to items of information to meet the disclosure objectives.
- 33 *The IASB considered the following alternative ways to describe the items of information using less prescriptive language:*
- (a) 'to meet the disclosure objective in paragraph [x], an entity shall consider disclosing...';
 - (b) 'to meet the disclosure objective in paragraph [x], an entity will normally disclose...'; and
 - (c) 'while not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph [x]...'

- 34 *In deciding which language to propose, the IASB considered which formulation would be most effective in signalling to entities the need to apply judgement and shift the focus away from applying disclosure requirements like a checklist.*
- 35 *The IASB concluded that the language ‘while not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph [x]’ would be the most effective option of those considered, in helping to address the disclosure problem.*
- 36 *The IASB observed that, provided disclosure objectives are specific enough to be operational and enforceable requiring entities to comply with disclosure objectives would require all material information necessary to meet the objective to be disclosed. Consequently, specifying that items of information are not mandatory should not result in material information being omitted. Instead, using this language to describe items of information would help entities to fully understand specific disclosure objectives and determine which information is material and therefore has to be disclosed.*
- 37 *Placing the compliance requirement on disclosure objectives and not on items of information would require an entity to apply similar judgement to that required by paragraph 31 of IAS 1. In the IASBs view, this approach would reinforce the materiality requirements in IAS 1 while also reducing the perceived compliance burden that stakeholders told the Board was a cause of the disclosure problem.*

Question 3 – Increased application of judgement

Paragraphs DG2–DG3 and DG8–DG13 of the Exposure Draft explain why, in future, the IASB 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.

EFRAG's response

EFRAG is concerned by the proposals in the ED to develop overall and specific objectives for disclosure in IFRS Standards without requiring disclosure of specific items (or only a very limited number of them), as this may result in application challenges for preparers and increased enforcement challenges and may ultimately impair comparability of information.

EFRAG considers that by focusing the objectives on the provision of entity-specific information and a higher level of judgement, the proposals will inevitably create implementation challenges and tensions with comparability. EFRAG believes that users of financial statements consistently highlighted the importance of both entity-specific information and comparable information.

EFRAG recommends that, before finalising the proposals in the ED a comprehensive outreach and field testing of the proposals will be necessary to better identify the operational challenges for preparers, enforcers and auditors. The purpose of such field-testing would be to identify potential implementation and application concerns for the two selected IFRS Standards, to determine whether there is a need for additional guidance, and to estimate the costs and benefits of the proposals.

EFRAG also suggest that the IASB considers the experience from its recent initiatives to foster the use of judgement and materiality assessment (in particular the publication of the Materiality Practice Statement and the revisions and clarifications to the definition of Materiality) and assess the effects of its most recently issued Standards which contained objectives for disclosure.

Increased level of judgement

- 38 EFRAG considers and accepts that the exercise of judgement is inherent in principle-based standard and objective-based disclosure requirements.
- 39 However, the level of judgement must not be so high that, if not properly exercised, it may impair the level of relevance, reliability and comparability of the information. The language used in the standard has to be prescriptive enough to encourage a certain level of comparability but not too prescriptive to discourage the use of judgement to provide the relevant information.
- 40 EFRAG considers as a key statement, the assessment made by the IASB in paragraph BC25-BC26 of the Basis for Conclusion that 'disclosure objectives need to be 'specific enough to be operational and enforceable' and 'not result in material information being omitted'.
- (a) If objectives are too detailed, they run the risks of being considered like checklists or rules;
 - (b) If objectives are too broadly set, they run the risk of not being operational nor enforceable.
- 41 Placing the compliance requirement on disclosure objectives and not on items of information would require an entity to apply materiality judgements to a universe of possible disclosures to meet a set objective. That might be challenging and burdensome for preparers.
- 42 Another aspect to consider are challenges from such approach for the information systems. Such systems are mainly developed for standardised information. To

adjust the information systems of reporting entities to deliver individual entity specific disclosure information might be costly and bear the risk of providing incorrect or unreliable information.

- 43 In EFRAG views, objectives must explain 'why' and 'for what purpose' specific disclosures have been introduced in a Standard, thus fostering the exercise of judgement as to whether the disclosure is useful in the specific circumstances of an entity.
- 44 EFRAG considers that before finalising the proposals in the ED a comprehensive field testing of the proposals will be necessary to better identify the operational challenges for preparers, enforcers and auditors. The purpose of such extensive field-testing would be to identify potential implementation and application concerns, to determine whether there is a need for additional guidance, and to estimate the costs and benefits of the proposals.
- 45 In doing so, the IASB could assess the effects of recently issued IFRS Standards which contain objective-based disclosures together with lists of items of information to meet the objectives (such as IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customer* or IFRS 16 *Leases*). Although the disclosure requirements in these Standards were not developed strictly using the proposed drafting guidance in the ED, there might be some similarities in the application and enforcement challenges.
- 46 A key aspect to consider in reviewing the effects of the proposals is the question of their costs. EFRAG considers that costs would inevitably be associated with the exercise of judgement based on the needs of users of financial statements rather than applying disclosure requirements like a checklist. For example, entities reporting quarterly, would have to assess which disclosures to provide for each reporting period. Incremental costs may include the need for increased involvement by senior management and increased audit costs relating to the application of judgement. After initial application, entities would need to continue to apply judgement as for many entities a significant number of judgements are likely to remain for subsequent periods.

Expected effectiveness of the approach in addressing the 'disclosure problem'

- 47 In its 2017 comment letter, EFRAG assessed that the 'disclosure problem' described in the IASB DP was multifaceted and included behavioural aspects and that the requirements in IFRS Standards are not the only root cause.
- 48 EFRAG considered that not all factors identified as contributing to the disclosure problem can be addressed by the IASB alone and that other stakeholders, such as preparers, auditors and regulators, each in their specific role, which all have a shared interest in fostering the improvement of disclosures.
- 49 Encouraging the behavioural changes needed to improve communication effectiveness requires the involvement of other stakeholders, such as preparers, auditors and regulators. They all have a specific role to plan and a shared interest in fostering the improvement of disclosures.
- 50 Maintaining a structured dialogue with them is therefore paramount. EFRAG considers it essential that the IASB sustain its education efforts during and after the ED's consultation period and beyond.

IASB's various initiatives to foster the exercise of judgement

- 51 EFRAG observes that the IASB has undertaken several initiatives to foster the exercise of judgement in preparing general purpose financial statements (including the notes);

- (a) In September 2017, the IASB issued IFRS Practice Statement 2 Making Materiality Judgements aiming at promoting a behavioural change and encourage greater application of judgement;
 - (b) In October 2018, the IASB amended its definition of 'material' aiming introducing in particular in the definition the concept that material information should not be obscured by immaterial one (applicable 1 January 2020); and
 - (c) In February 2021, the IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' intended to help preparers in deciding which accounting policies to disclose.
- 52 Some of the above guidance is already applicable and companies are expected to have applied them in one or more reporting cycles by the time the IASB considers the feedback from its ED consultation and decides on the direction of the project. We encourage the IASB to assess the effects of the above mentioned guidance and in particular whether it had the expected effects in addressing the disclosure problem, before finalising the new amendments.

Notes to constituents – Items of information to promote the use of judgement

- 53 *Under the proposed approach in the ED, the IASB will identify items of information that an entity may, or in some cases is required to, disclose to meet each specific disclosure objective.*
- 54 *The IASB will explicitly link every item of information included in the disclosure section of an IFRS Standard to one or more specific disclosure objectives. This is meant to provide clarity about the relationship between the specific disclosure objectives and items of information and, therefore, help entities to make effective judgements about whether information is material.*
- 55 *The items of information are meant to help entities apply judgement and determine how to satisfy the specific disclosure objective. As a result, an entity may need to disclose one, some or all of the items of information identified in the Standard. An entity may also need to disclose information in addition to that identified in the Standard to meet the detailed user information needs described in the specific disclosure objectives.*
- 56 *At times, the IASB may identify information that, if material to an entity, is always needed to meet the detailed information needs of users of financial statements described in the specific disclosure objective. In these cases, the IASB will, in the first instance, aim to develop a disclosure objective that is specific enough to make clear what information would satisfy the objective. If that is not possible, the IASB will use prescriptive language to require disclosure of a particular item of information.*

Question 4 – Describing items of information to promote the use of judgement

The IASB 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 IASB's reasons for this language and alternative options that the IASB 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?

EFRAG's response

EFRAG agrees that prescriptive language should be used for disclosure objectives.

EFRAG also agrees that the proposed expression for item of information to consider in assessing how to meet the objectives ('while not mandatory the following information may enable') is self-explanatory about the fact the items of information are not mandated. The language is also preferable to the alternatives considered by the IASB in paragraphs BC21 which would place a 'compliance burden' on entities as they would need to demonstrate that it had considered each item of information regardless of whether that item was ultimately disclosed.

However, EFRAG considers that the use of the proposed less prescriptive language may create enforceability and verifiability issues and put more emphasis (and therefore burden) on the level of judgement for preparers.

EFRAG also considers that the proposed non-prescriptive language introduces a lot of flexibility in disclosure requirements and may ultimately impair comparability. Language used in a standard has to be prescriptive enough to encourage a certain level of comparability. In this regard explaining the objective of disclosure requirements is essential but not enough to result in comparable information.

Although EFRAG supports the reduction of detailed checklist of disclosures, we do not support the complete elimination of such requirements. We consider that the challenge in applying the proposed approach is really for the IASB to strike a right balance between a tier of always required disclosures (that ensure a minimum level of comparability) and the application of objectives to have additional entity-specific disclosures.

We refer to our response to the previous questions regarding the need to field-test the proposals and to look at the experience from recently issued objective-based standard.

Finally, EFRAG invites the IASB to use consistent language across IFRS Standards when referring to information that is suggested (but not required) to meet a disclosure objective.

- 57 EFRAG agrees that the proposed expression (*'while not mandatory the following information may enable an entity to meet the specific disclosure objective ...'*) is self-explanatory and clear about the fact the items of information are not mandated and that judgement is required determine how to meet the specific disclosure objective.
- 58 EFRAG agrees that this expression is preferable to the alternatives considered by the IASB as discussed in the basis for conclusion in paragraphs BC21 and following (such as 'an entity shall consider disclosing' or 'an entity will normally disclose').
- 59 This is because these alternatives could be understood to place a 'compliance burden' on entities, as to comply with such proposals, an entity would need to demonstrate that it had considered each item of information regardless of whether that item was ultimately disclosed. This would run a greater risk or leading some entities to consider the items or information as a checklist as it may be easier for entities to disclose each item of information than to justify why any other item is not disclosed.
- 60 However, EFRAG considers that the proposed use of less prescriptive language when referring to items of information, may be more burdensome for preparers of financial statements by increasing the reliance on materiality judgements; and

impair comparability for users of financial statements by introducing more flexible approach to disclosures.

- 61 EFRAG observes that paragraphs DG13 of the ED states that *'at times the [IASB] may identify information that, if material to an entity, is always needed to meet the detailed information needs of users of financial statements described in the specific disclosure objective. In these cases, the [IASB] will, in the first instance, aim to develop a disclosure objective that is specific enough to make clear what information would satisfy the objective. If that is not possible, the [IASB] will use prescriptive language to require disclosure of a particular item of information'*.
- 62 Although EFRAG supports the reduction of detailed checklist of disclosures, we do not support the complete elimination of such requirements. As exemplified in the application of the proposals to IFRS 13 and IAS 19, EFRAG considers that some minimum disclosures may be always needed to meet the overall and specific objectives and should be required when this is the case. Therefore, we consider that the challenge in applying the proposed approach is really down to the IASB being able to strike a right balance between a tier of always required disclosures (that ensure some level of comparability) and the application of objectives to have additional entity-specific disclosures. The field testing of the proposals on IAS 19 and IFRS 13 will be crucial in that respect, as to whether a right balance has been reached between the two tiers of disclosures.
- 63 Finally, EFRAG invites the IASB to ensure that a consistent language is used across IFRS Standards.
- 64 EFRAG notes for example different in existing IFRS Standards:
- (a) 'may include, but is not limited to...' (e.g., IFRS 16 B49 to B52)
 - (b) 'could include' (IFRS 16 paragraph 59)
- 65 Similarly, the current project to revise the Management Commentary Practice Statement considered the expression 'could include'.
- 66 EFRAG recommends that, in assessing the effects of the ED, the IASB consider whether the language in IFRS 16 referred to above has created implementation issues.

Question 5 – Other comments on the proposed Guidance

Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the IASB 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).

EFRAG's response

EFRAG welcomes the development of a unified and rigorous methodology to draft disclosure requirements (as explained in BC28 to BC47) with the same level of depth and scrutiny as requirements for presentation, recognition and measurement; and takes no issue with the methodology presented in the ED.

EFRAG would like to caution the IASB about its expectation on the effects of the proposals in the ED as the 'disclosure problem' is multifaceted and includes behavioural aspects not all factors identified as contributing to the disclosure problem can be addressed by the IASB or the IASB alone.

EFRAG encourages the IASB to further consider the interactions between the proposals in the ED and the developments in digital reporting.

IASB's proposed steps to develop objectives and disclosure requirements

- 67 As explained in its responses to the previous questions, EFRAG welcomes the development of a unified and rigorous methodology to draft disclosure requirements (as explained in BC28 to BC47) with the same level of depth and scrutiny as requirements for presentation, recognition and measurement.
- 68 EFRAG notes that the proposed methodology to develop disclosure requirements (which starts with an understanding of the issues at stake, understanding users' needs, performing a cost-benefit analysis and documenting the effects of the proposals) is similar to the way the IASB generally develops measurement and recognition requirements under its existing due process. EFRAG supports the fact that the proposed approach will be both flexible (each step need not be done in sequence) and iterative so as to be adapted to different circumstances.
- 69 EFRAG observes that, in the Basis for Conclusions, the IASB explains that it expects that the 'disclosure requirements developed, using the proposed Guidance, would significantly affect the behaviour of preparers of financial statements, auditors and regulators. Specifically, the IASB expects that the ED will promote the application of judgement in deciding what information to disclose, and how to effectively communicate that information; and be difficult to apply like a checklist, because entities would be required to comply with a disclosure objective rather than to disclose particular items of information'.
- 70 EFRAG would like to caution the IASB about its expectation on the effects of the proposals in the ED. As explained in our response to Question 3, the 'disclosure problem' is multifaceted and includes behavioural aspects; and that the requirements in IFRS Standards are not the only root cause. Not all factors identified as contributing to the disclosure problem can be addressed by the IASB or the IASB alone as other stakeholders, such as preparers, auditors and regulators, each in their specific role, which all have a shared interest in fostering the improvement of disclosures. Encouraging behavioural changes is needed to improve communication effectiveness but it requires the involvement of other stakeholders to be effective.

Effect of technology on disclosures

- 71 EFRAG observes that the ED does explicitly consider the effect that technology may have on disclosure requirements.
- 72 In the project summary ('snapshot') accompanying the publication of the ED, the IASB states that it expects companies to add company-specific extensions for electronic reporting. However, a multiplication of entity specific extensions would defeat the whole purpose of XBRL reporting which is about is standardised tagging. EFRAG notes that the request for structured, standardised report data for a variety of different purposes comes from several stakeholders.

- 73 In its EFRAG's 2012 Discussion Paper, EFRAG emphasised the need to consider the effect of technology on financial reporting in general and on disclosure requirements in particular. It was noted that the organisation of disclosures might be less important as users can dip in and out of the 'digital annual report' to find information that they need, rather than by reading it from front to back. EFRAG observed that developments in technology might influence how much information is included in printed financial statements. In electronic format, there may be less need for disaggregated disclosures, if disaggregation could be achieved by drilling down on the numbers in primary financial statements in a digital format.
- 74 EFRAG reiterated this view in its 2017 response to the 2017 *Principles of Disclosure* Discussion Paper and regretted that the IASB project had not considered in greater depth the implications of digital reporting and other technological developments on the roles of the primary financial statements and the notes and the distinction between them DP append noted that the IASB appeared to implicitly limit its focus to today's fixed layout-type reports.
- 75 With the increasing use of technology to prepare and to access information (use of XBRL reporting, European Single European Format), the interaction of objective-based standards (moving away from lists of required disclosures) and electronic reporting should be considered as it creates specific challenges. In particular tagging disclosures that will be less standardised and comparable and include more entity-specific narrative information could be challenging. Information tagged in a certain way will be deemed comparable and might be used without further analysis on comparability.
- 76 EFRAG therefore encourages the IASB to further consider the interactions between the proposals in the ED and the developments in digital reporting.

Proposed amendments to IFRS 13 *Fair Value Measurement* applying the proposed Guidance

Notes to constituents – Overall Objective

- 78 Paragraphs 100 -101 of the ED state that an entity shall disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition.
- 79 This information shall enable users of financial statements to understand:
- (a) the significance of those classes of assets and liabilities for the entity's financial position and performance;
 - (b) how their fair value measurements have been determined; and
 - (c) how changes in those measurements could have affected the entity's financial statements at the end of the reporting period.
- 80 An entity shall consider the level of detail necessary to satisfy the disclosure objectives [set out in this IFRS] and ensure that relevant information is not obscured by the inclusion of insignificant detail.

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 IASB'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?

EFRAG's response

EFRAG generally agrees that the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition as proposed by the IASB could be useful for preparers. This will help them understand the information needs of primary users of financial statements in relation to fair value measurement. Finally, it will allow preparers to reassess whether the information provided satisfies both specific and overall needs of users.

EFRAG notes that the extent of the effects of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information they provide. EFRAG will form a view on the proposed approach after collecting more evidence about the possible impacts of this approach.

- 81 EFRAG considers that the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition as proposed by the IASB could be useful for preparers. This will help them understand the information needs of primary users of financial statements in relation to fair value measurement. Finally, it will allow preparers to reassess whether the information provided satisfies both specific and overall needs of users.

- 82 In the Post-implementation Review (PIR) of IFRS 13⁴ feedback received by EFRAG, users noted that they needed information to assess whether the techniques and inputs used to estimate fair value are reasonable and consistent with their own expectations. According to the outcome of the PIR, the most important disclosure objectives are to ensure that users of financial statements are able to understand:
- (a) the fair values disclosed;
 - (b) how it was determined; and
 - (c) the techniques and inputs that are significant to the entity's fair value measurements and give rise to uncertainty in those measurements.
- 83 As explained in our response to Question 3, the disclosure problem, and the issues with the lack of use of materiality judgement are multifaceted and include behavioural aspects. EFRAG is not persuaded by the proposals in the ED on IFRS 13, which increase the level of judgement and may not have the desired outcome. Furthermore, it may result in a loss of information as there is a risk that the reduced list of disclosures may constitute a new 'checklist' even when the information is not material in the entity's circumstances. Finally, preparers may decide not providing other entity-specific and relevant information if these are not included in the minimum list.
- 84 However, EFRAG considers that the objective should explain why specific items of information are required and how they are used by the primary users of financial statements, rather than replacing the requirements themselves.
- 85 EFRAG notes that the PIR of IFRS 13 completed by the IASB in 2017 did not result in the need to revise the standard. Furthermore, users are overall satisfied about the information that they receive (also refer to the results of EFRAG's PIR survey as set out in paragraphs 106 to 109). EFRAG also notes that many of the current disclosure requirements would become, under the proposed approach, voluntary, depending on the judgement exercised by the management in defining how to meet the disclosure objectives.
- 86 EFRAG will form a final view on the proposed approach after collecting more evidence about the possible impacts of this approach. EFRAG notes that the extent of the effect of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information they provide.
- 87 EFRAG's preliminary view is that an appropriate cost benefit analysis is essential before considering a change in the current requirements, given that the PIR reflected that IFRS 13 is working in a satisfactory way. Therefore, a thorough evaluation of the benefits of a structured and more entity-specific approach to the disclosures compared a possible reduction in the relevant information needed by users and provided currently is necessary.
- 88 As noted by the IASB, users also say that the disclosures often contain detailed information about immaterial fair value measurements. This contrasts with cases where limited information is available about the fair value measurements that are material to the entities' financial statements. These disclosures are also costly for entities to prepare.
- 89 EFRAG also notes that IFRS13, applied since 2013, already included high-level disclosure objectives, EFRAG considers that it is necessary to field-test this new approach where companies should make judgements by explaining why information is important to users and how users might use information in their analysis.

⁴ [EFRAG - Summary of comments received from European constituents PIR IFRS 13](#). (September 2017)

- 90 The current disclosure requirements focus on information that helps users assess:
- (a) the **valuation techniques and inputs** used to develop those measurements; as well as
 - (b) for recurring level 3 items the **effect of the measurements on profit or loss or other comprehensive income** for the period (paragraph 91 of IFRS 13).
- 91 The new disclosure requirements focus on information that enables users of financial statements to evaluate the entity's exposure to **measurement uncertainties** (paragraph 100 of the ED).
- 92 EFRAG is not persuaded that the proposals in the ED would be enough to trigger behavioural changes and deter entities from applying a checklist approach (see also our response to the Question 3 on the drafting guidance methodology).
- 93 Some respondents to the PIR also mentioned that requiring detailed disclosures would be the best way to help users of financial statements understand the subjectivity of Level 3 fair value measurements. Such measurements are estimated using unobservable inputs that have a significant effect on such measurement. EFRAG also considers that detailed information about Level 3 fair value measurements is only relevant to users if the transactions involving those financial instruments are material.
- 94 Some respondents also considered that detailed information about some Level 2 fair value measurements would be relevant to users of financial statements.
- 95 Lastly, EFRAG agrees that overall disclosure objective for defined fair value measurements should aim for the entities to understand the overall information needs of users of financial statements. However, EFRAG observes that there seem to be an inconsistency between the ED and the snapshot published by the IASB as educational material as the overall disclosure objective in the snapshot refers to investors instead of users. The consistency of the term is important to the extent that according to the conceptual framework an investor is one type of user but not the only one.

Notes to constituents – Specific objective for assets and liabilities measured at fair value.

- 96 *For assets and liabilities measured at fair value, the ED considers four specific objectives that require that the information provided shall enable users to understand:*
- (a) *the amount, nature and other characteristics of assets and liabilities and how those characteristics relate to categorisation in the fair value hierarchy;*
 - (b) *the significant techniques and inputs used in determining fair value measurements;*
 - (c) *alternative fair value measurements using inputs that were reasonably possible at the reporting period end; and*
 - (d) *the significant reasons for changes in the fair value measurements during the reporting period.*

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 IASB'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 IASB 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.

EFRAG's response

EFRAG agrees that faithful representation of fair value measurement includes an explanation of the uncertainties inherent in that measurement and the possible range of values.

Specific disclosure objectives could help entities to understand the specific needs of primary users of financial statements. Thus, these objectives may reduce the complexity of the Standard.

- 97 EFRAG agrees with how the ED characterises the specific disclosure objectives about assets and liabilities measured at fair value, that is:
 - (a) the amounts of assets and liabilities within each level of the fair value hierarchy;
 - (b) the measurement uncertainties;
 - (c) reasonably possible alternative fair value measurements; and
 - (d) reasons for changes in fair value measurements.
- 98 EFRAG agrees in particular that faithful representation of fair value measurement requires the inclusion of an explanation of the uncertainties inherent to that measurement and the possible range of values.
- 99 EFRAG firstly observes that the current IFRS 13 contains a combination of high-level disclosure objectives and a list of minimum disclosures that are labelled as 'always required' (subject only to materiality considerations). It also does not provide guidance for preparers when exercising judgement beyond the minimum requirements such as for specific additional (or alternative) disclosures that would be relevant in their specific circumstances.
- 100 EFRAG is cognisant that some entities experienced challenges in understanding the IFRS 13 disclosure objectives and some considered the information fair value measurement to be excessive. Specific disclosure objectives could help entities to understand the specific needs of primary users of financial statements. Thus, these objectives may reduce the complexity of the Standard.
- 101 EFRAG also received feedback that, where entities have to disclose the fair values of their financial instruments, the existing detailed requirements about Level 3 measurements are excessive (in particular for corporate entities that are not financial institutions). As entities often provide that information even when not material to their specific circumstances.

- 102 EFRAG notes (both from its consultation on the PIR of IFRS 13 and from discussion with its advisory groups) that some respondents consider the detailed fair value disclosures currently provided by some non-financial entities (in particular for level 3 valuations) not always material and potentially obscuring other material information. These respondents understood the need for financial institutions to disclose such detailed fair value measurement disclosures but recommended that the IASB targets simplified fair value disclosures for non-financial entities. EFRAG considers that the application of the proposed requirements would reduce or eliminate that non-useful information.

Notes to constituents – Information to meet the specific disclosure objectives for assets and liabilities measured at fair value

- 103 *The ED includes a mix of items of information that entities are required to disclose and others that, while not mandatory could be considered in meeting the objectives.*
- 104 *For assets and liability measured at fair value, paragraphs 105, 109, 111 and 116 describe the items of information that are required:*
- (a) *the fair value measurement for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3). [Paragraph 105]*
 - (b) *whether it uses the policy choice exception in paragraph 48 when measuring the fair value of a group of financial assets and financial liabilities [Paragraph 109]*
 - (c) *for recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the alternative fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, using inputs that were reasonably possible at the end of the reporting period. [Paragraph 111]*
 - (d) *for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, an entity shall disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements. [Paragraph 116]*
- 105 *Paragraphs 106, 110 and 113 and 117 describe various items of information that while not mandatory, could be considered in assessing whether the objective is met:*

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 IASB’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 IASB 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?

EFRAG's response

EFRAG agrees that entities should be required to disclose information which enables users of financial statements to understand: (i) the amount, nature and other characteristics of each class of assets and liabilities, (ii) the significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities, and (iii) the significant reasons for changes in the fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

However, as mentioned in our responses to the first questions in this RFI regarding the methodology, EFRAG also questions the likely effectiveness of non-mandatory information. EFRAG therefore recommends that the IASB further investigates the effective applicability of such non-mandatory information.

Specifically, EFRAG is concerned that while users may use information about alternative fair values, as the proposal refers to *all* items that are fair valued on a recurring basis, this would increase the burden on preparers disproportionately.

EFRAG agrees that significant judgements and assumptions are useful as entities should have some flexibility to determine the form and level of disclosure that best meets users' needs. However, the level of judgement must not be so high that, if not properly exercised, it may impair the level of relevance, reliability and comparability of the information. Therefore, EFRAG recommends to the IASB to investigate further the practical application of the disclosure requirements.

106 In EFRAG's survey on the 2017 PIR of IFRS 13 the following percentage of user respondents considered the specified information as very useful or useful:

Information provided	% of users
Quantitative information about significant unobservable inputs used	91%
Description of valuation techniques and inputs	82%
Description of the valuation processes	82%
Level 3 reconciliation of opening and closing balances	73%
Sensitivity to changes in significant unobservable inputs	45%

107 Other comments received from users included:

- (a) In relation to the impact of aggregation and generic disclosures, most respondents indicated that information that is not entity specific impaired the usefulness of the disclosures;
- (b) Some users indicated that sensitivity analyses and liquidation curves could be useful where financial instruments are linked to the enterprise value. Instruments with an equity linkage often have a range of outcomes linked to an enterprise value with preference structures which create paybacks which are non-linear. Users indicated that current sensitivity disclosures do not provide this information in a useful and understandable manner;
- (c) Some users recommended distinguishing realised gains from unrealised ones for Level 1 and 2 fair value measurements as is required for Level 3 as this could be useful for the determination of distributable reserves; and

- (d) Some users recommended that gains and losses of a different nature should not be aggregated.
- 108 During the same process, 15 non-users indicated that the disclosures of Level 3 fair value measurements are overall moderately useful. However, some respondents indicated that the aggregation of disclosures impaired the usefulness of information. Preparers indicated that compiling the disclosures was costly and time consuming.
- 109 Respondents also considered that the following disclosures could be helpful:
- (a) Values of the unobservable parameters in order to understand the assumptions used; and
 - (b) Information on the quantitative interaction of unobservable parameters because joint sensitivity parameters could help in understanding whether or not sensitivities are additive.

Mandatory disclosures

- 110 EFRAG generally agrees that entities should be required to disclose:
- (a) the fair value measurement hierarchy (level 1, 2 or 3) for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition;
 - (b) whether it uses the exception in paragraph 48⁵ of IFRS 13, for measuring the fair value of a group of financial assets and financial liabilities; and
 - (c) a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements of level 3 items.
- 111 EFRAG considers that for assessing how fair value measurements affect an entity, one needs to understand what is being measured. In the PIR some users mentioned that for gains and losses of a different nature should not be aggregated for usefulness purposes. For that reason, EFRAG agrees to a specific disclosure objective to focus on the amount, nature and other characteristics of items in the fair value hierarchy for *assets and liabilities within each level of the fair value hierarchy*.
- 112 EFRAG considers it appropriate for an entity not to disclose every technique and input used but consider that information about *measurement uncertainties associated with fair value measurements* should be provided. This includes information about the significant techniques and inputs to the fair value measurements which give rise to uncertainty in those measurements. This approach is consistent with paragraph 127 of IAS 1.
- 113 The IASB is proposing in the ED to require disclosure about alternative fair value measurement for recurring fair value measurement. EFRAG notes that users may find information about *alternative fair value measurements* useful but that this proposal would vastly extend the population for which similar information is currently provided. Currently, level 3 items are in several industries, mainly financial institutions, the smallest group in the fair value hierarchy while level 2 items are the vast majority. Such required disclosures for this population would therefore increase the burden on preparers significantly. Therefore, considering the low perceived usefulness this information scored in its 2017 survey, EFRAG is not convinced about

⁵ That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received (a) to sell a net long position (e.g., an asset); (b) for a particular risk exposure or paid to transfer a net short position (e.g., a liability); and (c) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

the trade-off between costs and benefits for this proposed requirement in several industries. In addition, disclosing the range of alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period (paragraph 113 b of the ED) would raise issues of understandability. EFRAG considers this proposed requirement should be modified or further investigated in field testing as suggested.

- 114 The IASB expects an entity to apply judgement to determine which items of information are relevant in its circumstances regarding measurement uncertainties associated with fair value measurements and reasonably possible alternative fair value measurements. The IASB also expects entities assessing which reasons for changes are significant to consider all reasons for changes on a relative basis and apply judgement to determine which of those reasons to disclose.
- 115 EFRAG agrees that judgements and information about assumptions taken are useful, and entities should have some flexibility to determine the level of disclosure that most appropriately reflects users' needs. However, if more emphasis is placed on making disclosures entity specific, then inevitably there has to be some ground given up on achieving comparability. In this respect, EFRAG encourages the IASB to assess, in its field testing, the interaction between those two principles.

Reasons for changes in fair value measurements

- 116 EFRAG considers it important to understand why the amount of fair value measurements has changed during the period and the *reasons for such changes in fair value measurements*. Understanding how fair values have changed during the period helps users to identify important items to include in their analyses. In addition, EFRAG does not consider useful that entities disclose information about all reasons for changes in all fair value measurements across all levels of the fair value hierarchy.
- 117 For that reasons, EFRAG agrees on the focus of the specific disclosure objective on reasons for changes that are significant to fair value measurements. EFRAG expects entities to assess which reasons for changes are significant on a relative basis and apply judgement to determine which of those reasons to disclose.

Non-mandatory disclosures

- 118 EFRAG also notes the IASB's proposal to develop non-mandatory information to meet each specific disclosure objective. EFRAG questions the likely effectiveness of such non-mandatory information and recommends that the IASB investigates further the effective applicability of such non-mandatory information.
- 119 EFRAG agrees to the inclusion of items of information that, while not mandatory, may enable an entity to meet the specific disclosure objective about measurement uncertainties associated with fair value measurements. The IASB observed that the information necessary to meet the objective would vary depending on an entity's particular fair value measurements and how the entity has performed those measurements. EFRAG expects an entity to apply judgement to determine which items of information are relevant in its circumstances. However, EFRAG is concerned about the expansion of the population for which such disclosures may be required as explained in paragraph 113 above.

Questions to Constituents

- 120 Do you agree with the EFRAG position that the proposal on the provision of alternative fair values is too burdensome and raises issues of understandability, or do you consider that the benefit to users would outweigh the costs? Please provide an estimate of the additional costs/time required. This can be done by comparing assets and liabilities currently classified as level 3 to those as level 2 or by comparing the estimated workdays currently required by that required under the proposal.
- 121 Do you have any alternative proposals to provide information that would allow users to evaluate the possible outcomes of the fair value measurements at the end of the reporting period?

Notes to constituents – Specific objective for assets and liability not measured at fair value but for which fair value is disclosed

- 122 *Paragraphs 118-119 of the ED state as a specific objective, that an entity shall disclose information that enables users of financial statements to understand:*
- (a) *the amount, nature and other characteristics of each class of assets and liabilities (see paragraphs B48–B50) not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes; and*
 - (b) *how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.*
- 123 *The information is intended to help users of financial statements assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position and financial performance.*

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 IASB'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?

EFRAG's response

EFRAG agrees that the most useful information about items not measured at fair value but for which fair value is disclosed, is information that enables users to understand the nature and characteristics of such items.

EFRAG agrees with the development of a specific disclosure objective to focus on the amount, nature and other characteristics of items in the fair value hierarchy.

- 124 EFRAG considers that users need fair value information about some items that are not measured at fair value in the statement of financial position to perform forecasting calculation and analyses. For that reason, the most useful information about items not measured at fair value but for which fair value is disclosed is information that enables users to understand the nature and characteristics of such items.
- 125 EFRAG agrees with the development of a specific disclosure objective to focus on the amount, nature and other characteristics of items in the fair value hierarchy. EFRAG concurs with the IASB's decision to highlight in the specific disclosure objective that users are interested in how those characteristics relate to the item's categorisation within the fair value hierarchy. Moreover, EFRAG also agrees that an entity does not need to explain the categorisation of each class of assets and liabilities as:
- (a) users primarily want to assess the relative subjectivity in the classification of items in the fair value hierarchy. This can be more effectively achieved from good descriptions about the classes of items categorised within each level of the fair value hierarchy than a description of the entity's classification processes; and
 - (b) narrative information about how an entity determined the level of the fair value hierarchy to which an item belongs is likely to be boilerplate.
- 126 EFRAG initial view is that some entities would incur incremental costs on initial application of disclosure requirements developed using the proposed guidance. Entities are likely to incur significant costs in the first year, that is likely to persist for each reporting period.
- 127 EFRAG FIWG members concurred that these costs would relate primarily to the emphasis on applying judgement based on the needs of users of financial statements rather than applying disclosure requirements like a checklist. For example, financial institutions report quarterly and the cost to apply judgement each period could be excessive. Incremental costs may include the need for increased involvement by senior management and increased audit costs relating to the application of judgement. After initial application, entities would need to continue to apply judgement as for many entities a significant number of judgements are likely to remain for subsequent periods.

Notes to constituents – Information to meet the specific objective for assets and liabilities not measured at fair value but for which fair value is disclosed.

- 128 *Paragraph BC100 of the Basis for Conclusions explains that the ED proposes one specific disclosure objective for items not measured at fair value but for which fair value is disclosed that are similar one of the specific objectives described for asset and liability measured at fair value (see paragraphs 122 a) and b) above).*
- 129 *Therefore, entities are required to disclose the same information for that objective that is: the fair value measurement for each class of assets and liabilities not measured at fair value in the statement of financial position but for which fair value*

is disclosed by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).

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 IASB'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?

EFRAG's response

EFRAG agrees with the requirement to disclose the fair value measurements for each class of assets and liabilities at the end of the reporting period by level of the fair value hierarchy in which those measurements are categorised in their entirety.

EFRAG agrees that a description of the nature, risks and other characteristics of these classes of assets and liabilities can be provided by cross-reference to where that information is disclosed elsewhere in the financial statements.

- 130 EFRAG agrees requiring entities to disclose the fair value measurements for each class of assets and liabilities at the end of the reporting period by level of the fair value hierarchy in which those measurements are categorised in their entirety.
- 131 EFRAG concurs that without this information, a user of financial statements would be unable to understand the carrying amounts of assets and liabilities within each level of the fair value hierarchy. However, EFRAG notes that it may be difficult for financial institutions to provide information around the subjectivity of the hierarchy assessment except on a very aggregated level. It is not clear how useful this would be to users on such an aggregated basis.
- 132 EFRAG agrees that a description of the nature, risks and other characteristics of these classes of assets and liabilities can be provided by cross-reference to where that information is disclosed elsewhere in the financial statements.

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?

EFRAG's response

EFRAG considers that transition requirements should be further investigated by the IASB. EFRAG is concerned about the potential burden of this new disclosure requirements arising from the ED.

EFRAG also questions where the new disclosure requirements result in a new disclosure approach whether comparative information should be provided in the financial statements.

- 133 EFRAG considers that the application of a brand-new approach for disclosure requirements will be more challenging for 'legacy' standards like IFRS 13 which have been applied for many reporting cycles by entities. As explained in our questions to the questions on the methodology, EFRAG suggests that the proposals on IFRS 13 should be subjected to extensive field testing before finalising the amendments. This would assist to better identify the operational challenges for preparers, enforcers and auditors. Furthermore, such extensive field-testing would help to identify potential implementation and application concerns, as well as any need for additional guidance, and to assess the costs and benefits of the proposals as well as challenges for information systems.
- 134 EFRAG considers that transition requirements should be further investigated by the IASB. EFRAG is concerned about the potential burden of this new disclosure requirements arising from the ED. There should be an analysis whether the proposed changes are a complete re-write of the disclosure requirements with higher levels of judgement as well as significant implementation costs and time.
- 135 EFRAG also questions where the new disclosure requirements result in a new disclosure approach whether comparative information should be provided in the financial statements.

Proposed amendments to IAS 19 *Employee Benefits* applying the proposed guidance

Notes to constituents – Overall objective for defined benefits plans

- 136 *The ED explains that the overall disclosure objective for defined benefits plans is to provide information that enables users of financial information to assess the effect of defined benefit plans (DB plans) on the company's financial position, financial performance and cash flows and to evaluate the risks and uncertainties associated with the company's defined benefit plans.*
- 137 *The ED further explains that an entity shall aggregate or disaggregate information provided to meet the disclosure objectives about defined benefit plans set out in this Standard. In doing so, an entity ensures that relevant information is not obscured by either the inclusion of insignificant detail or the aggregation of items that have substantially different features or characteristics.*
- 138 *In doing so, an entity shall:*
- (a) consider the nature, risks and other characteristics of its defined benefit obligation. For example, an entity might distinguish between amounts owed to active members, deferred members and pensioners; and*
 - (b) assess whether disclosures should be disaggregated to distinguish plans or groups of plans with different risks.*

Question 12 – Overall disclosure objective for defined benefit plans

Paragraphs BC107–BC109 of the Basis for Conclusions describe the IASB'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.

EFRAG's response

EFRAG generally agrees that the overall disclosure objective for defined benefit plans could be useful for preparers. This will help entities to understand the overall information needs of users of financial statements in relation to defined benefit plans.

EFRAG notes that the extent of the effects of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information they provide. EFRAG will form a view on the proposed approach after collecting more evidence about the possible impacts of this approach.

EFRAG also believes that the examples of features an entity could use to disaggregate information provide useful information to help entities identify methods of disaggregation. However, EFRAG observes that paragraph 147B of the ED repeats guidance about aggregation of information and obscuring material information which is already contained in IAS 1 Presentation of Financial Statements. In this regard, having guidance repeated in different places may affect consistent application across IFRS Standards.

- 139 EFRAG generally agrees that the overall disclosure objective for defined benefit plans could be useful for preparers. This will help entities to understand the overall information needs of users of financial statements in relation to defined benefit plans and allow them to assess whether the information provided to satisfy specific users need satisfies also their overall needs.

- 140 Having an overall objective set up in this way on defined benefit plans can prompt entities to step back and consider, after having addressed all the specific disclosure objectives, whether the information as a whole is useful.
- 141 For example, an entity may need to disclose additional information if material risks, and uncertainties associated with an entity's defined benefit plan could potentially affect the entity's primary financial statements and have not been captured by the specific disclosure objectives.
- 142 EFRAG considers that the proposed overall disclosure objective focuses rightly on the impact that defined benefit plans have on financial position, financial performance and cash flows, and on their risks and uncertainties. This anchorage on the information presented in the primary financial statements has the potential to increase the overall understandability of the information by identifying the impact that the defined benefit plans have had on the financial statements during the period and evaluate the risks and uncertainties associated with the plans.
- 143 EFRAG notes that the extent of the effects of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information they provide. EFRAG will form a view on the proposed approach after collecting more evidence about the possible impacts of this approach.
- 144 EFRAG considers that careful judgement on the level and basis of aggregation and disaggregation is essential to meet the disclosure objectives about defined benefit plans set in the ED. Users of financial statements need the information to be sufficiently granular especially in those cases where defined benefit plans are a significant part of an entity's assets and liabilities and have a significant impact on its financial performance and cash flows.
- 145 In this respect, we consider that the examples of features an entity could use to disaggregate information provide useful information to help entities identify methods of disaggregation. In addition, we consider elevating the status of the guidance on aggregation/disaggregation by including it in the section discussing the overall objective section emphasizes the importance of the matter.
- 146 EFRAG observes that paragraph 147B of the ED repeats guidance about aggregation of information and obscuring material information which is already contained in IAS 1 *Presentation of Financial Statements*. The IASB could reconsider whether having the guidance repeated in different places is the most effective way of achieving consistent application.
- 147 Lastly, EFRAG agrees that overall disclosure objective for defined benefit plans should aim for the entities to understand the overall information needs of users of financial statements. However, EFRAG observes that there seem to be an inconsistency between the ED and the snapshot published by the IASB as educational material as the overall disclosure objective in the snapshot refers to investors instead of users. The consistency of the term is important to the extent that according to the conceptual framework an investor is one type of user but not the only one.

Notes to constituents – Specific objectives for defined benefits plans

148 The ED states that the specific objectives of disclosures for defined benefits plans is to disclose information that enables users of financial statements to understand:

	Specific objectives
<i>Amounts in the primary financial statements relating to defined benefit plans</i>	- the amounts, and components of those amounts, arising from defined benefit plans during the reporting period in the statements of financial position, financial performance and cash flows.
<i>Nature of, and risks associated with, defined benefit plans</i>	- the nature of the benefits provided by the defined benefit plans; - the nature and extent of the risks, in particular the investment risks, to which the defined benefit plans expose the entity; - and strategies that the entity has in place to manage the defined benefit plans and the identified risks
<i>Expected future cash flows relating to defined benefit plans</i>	- the expected effects of the defined benefit obligation recognised at the end of the reporting period on the entity's future cash flows and the nature of those effects.
<i>Future payments to members of defined benefit plans that are closed to new members</i>	- the period over which payments will continue to be made to members of defined benefit plans that are closed to new members.
<i>Measurement uncertainties associated with the defined benefit obligation</i>	- the significant actuarial assumptions used in determining the defined benefit obligation.
<i>Reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans</i>	- the significant reasons for changes in the amounts recognised in the statement of financial position that relate to the defined benefit plans from the beginning of the reporting period to the end of that period.

Question 13 – Specific disclosure objectives for defined benefit plans

Paragraphs BC110–BC145 of the Basis for Conclusions describe the IASB's reasons for proposing the specific disclosure objectives about defined benefit plans, and discuss approaches that the IASB 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.

EFRAG's response

EFRAG agrees that the proposed specific disclosure objectives capture the right area of information need of users in relation to defined benefit plans. However, with respect to the specific disclosure objectives relating to 'Nature of, and risks associated with, defined benefit plans', EFRAG observes that the ED refers broadly to the 'nature' of the benefits or the risks without defining the term. EFRAG is concerned that, if not tailored more narrowly, the ED may not improve substantially the lengthy narrative information about their defined benefit plans which is already provided by some entities and that occasionally results in boiler-plate information.

EFRAG considers that introducing specific disclosure objectives can be beneficial to help entities exercise judgement in assessing how to meet the information needs of the primary users of financial statements.

At this stage, EFRAG is not in a position to assess whether benefits will outweigh the costs to implement the proposals. EFRAG will conduct field tests to form a view. EFRAG also urges the IASB to undertake a comprehensive field testing of the proposals in the ED, before finalising the amendments to better identify the operational challenges for preparers, enforcers and auditors.

- 149 EFRAG is aware of the challenges experienced by some users with existing IAS 19 disclosure requirements. EFRAG has heard, through its consultative groups that better information about the expected cash-flow effects of a post-employment benefit plan would be more useful than the information they typically receive today. Also detailed actuarial assumptions are sometimes only understandable to sophisticated investors rather than more 'ordinary' primary users.
- 150 Entities sometimes provide lengthy narrative information about their defined benefit plans, which users of financial statements do not find useful.
- 151 Therefore, EFRAG considers that introducing specific disclosure objectives can be beneficial to help entities exercise judgement in assessing how to meet the information needs of the primary users of financial statements.
- 152 EFRAG agrees that the proposed specific objectives capture the right area of information need of users. In particular understanding the amount reflected in the financial statement, on the one hand, and the risks associated with defined benefit plans is necessary for users of financial statements to understand and evaluate the effects that the plans have on the entity's cash flows, performance and position.
- 153 However, EFRAG observes that the ED refers broadly to the 'nature' of the benefits or the risks without defining the term. The non-mandatory guidance to help entity assess how to meet the objectives does not shed more light in that respect as it broadly refers to 'a description of the nature of the benefits provided by the plans'; and 'a description of plan-specific investment risks'.
- 154 EFRAG is concerned that, if not tailored more narrowly, the ED may not improve substantially the lengthy narrative information about their defined benefit plans which is already provided by some entities.
- 155 In addition, to understand the nature of, and risks associated with, defined benefit plans, it may be also necessary to understand the relationship between the pension plans and the entity, which may include different features such as financing aspects or risk-sharing aspects. Depending on the relationship, different items of information would be necessary to allow users to understand the relationship between the

pension plans and the entity. This becomes more and more important as it can be observed that the structure of employee benefit plans is evolving. Hybrid plans are becoming more and more common. As the importance of pure defined benefit plans is decreasing and defined contribution plans might include certain risks related to funding and cash flows it might be advisable that specific disclosure requirements are developed for defined contribution plans. This would also prevent complete information from not being given for hybrid plans.

Cost and benefits

- 156 As indicated in paragraph 46 a key aspect to consider in reviewing the effects of the proposals is the questions of their cost. At this stage, EFRAG is not in a position to assess the costs and benefits associated with the proposals. EFRAG will conduct field tests and the proposals to form a view.
- 157 As indicated in our response to the first questions in the ED, EFRAG also urges the IASB to undertake a comprehensive field-testing of the proposals in the ED, before finalising the amendments to better identify the operational challenges for preparers, enforcers and auditors. The purpose of such extensive field-testing would be to identify potential implementation and application concerns, to determine whether there is a need for additional guidance, and to assess the costs and benefits of the proposals as well as the changes for the information systems of the entity.
- 158 EFRAG initial assessment is that entities might incur incremental costs on initial application of the ED. This is because the ED proposes a complete rewriting of the disclosure requirements and entities will need time to understand and implement the changes. Also exercising judgement, rather than applying disclosure requirements like a checklist will put additional burden on preparers. Incremental costs may include the need for increased involvement by senior management and increased audit costs relating to the application of judgement. In addition, many entities already have systems in place to collect the information needed for the disclosures (e.g., subsidiaries reporting in the context of consolidated figures). It is expected that they continue using legacy systems to collect the information, before making any judgements. Therefore, the costs in connection with the exercise of judgements may be in addition to the costs of obtaining the recurrent information. However, as indicated above, EFRAG will need to conduct field test activities.

Notes to constituents – Information to meet specific objectives for defined benefits plans

- 159 *The ED includes a mix of item of information that entities are required to disclosure and item of information that, while not mandatory could be considered in meeting the objectives.*
- 160 *For defined benefit plans, paragraphs 147F and 147V describe the items of information that are required and include:*
- (a) *the amount of the defined benefit cost included in the statement of profit or loss, identifying its components, including current service cost, past service cost, gain or loss on settlement, and net interest on the net defined benefit liability;*
 - (b) *the amount of the defined benefit cost in the statement presenting comprehensive income, identifying its components, including actuarial gains and losses and return on plan assets excluding amounts included in (a);*
 - (c) *the amount of the net defined benefit liability (asset) in the statement of financial position, identifying its components, including fair value of the plan assets, present value of the defined benefit obligation, and the effect of the asset ceiling;*

- (d) *the deferred tax asset or liability arising from the defined benefit plans (or a cross-reference to where that information is disclosed elsewhere in the financial statements);*
 - (e) *the amounts in the statement of cash flows, identifying their components, including contributions by the entity into the defined benefit plans; and*
 - (f) *a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the net defined benefit liability (asset). Detailed reasons for changes that might be appropriate include are in paragraph 147V.*
- 161 *Paragraph 147M indicates that an entity provides information about the expected cash flow effects of its defined benefit obligation recognised at the end of the reporting period to meet the disclosure objective in paragraph 147J. However, an entity may provide information about the expected future cash flow effects for the defined benefit plan as a whole, without differentiating between those that meet the defined benefit obligation recognised at the end of the reporting period and other expected future cash flows, if the entity believes that such information would better meet the disclosure objective.*

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

Paragraphs BC110–BC145 of the Basis for Conclusions describe the IASB’s reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans, and discuss information that the IASB 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?

EFRAG’s response

EFRAG agrees that information included in paragraph 147F is required to be disclosed because information about the amounts relating to defined benefit plans recognised in each of the primary financial statements, and the components of those amounts, would always be necessary to meet the specific disclosure objective. EFRAG also agrees that information included in paragraph 147V is required to be disclosed as a quantitative reconciliation that explain reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans could be more understandable for users than a qualitative description. EFRAG is of the view that the information about the expected cash flow effects of defined benefit obligation recognised at the end of the reporting period could be required to be disclosed (paragraph 147M) because for many users this is the most relevant information, they could receive about defined benefit plans.

With respect to information about actuarial assumptions, EFRAG is concerned that entities either continue to disclose what they are currently disclosing or provide a lot of immaterial information about assumptions that may affect the relevance of information as well as the comparability across entities.

EFRAG suggest the IASB include additional guidance or illustrative examples that help entities identify detailed information, other than sensitivity analysis, that allow users to understand the uncertainties of significant assumptions.

Required disclosures

- 162 EFRAG agrees with the IASB’s view that information about the amounts relating to defined benefit plans recognised in each of the primary financial statements, and the components of those amounts, would always be necessary to meet the specific disclosure objective. In addition, we welcome the illustrative Example 1 to IAS 19 that illustrate how an entity might comply with the specific disclosure objective as it will help entities to develop required disclosures.
- 163 The ED introduces a new obligation to present, upfront, a quantitative ‘executive summary of the plans. In EFRAG’s view this has the potential to improve the communication effectiveness. EFRAG supports the addition of this upfront executive summary as it is often difficult and time-consuming for users to obtain a clear understanding of the effects of defined benefit plans on the primary financial statements.

- 164 EFRAG agrees that information included in paragraph 147F is required to be disclosed for the reasons explained in paragraph 162 and 163 above. EFRAG also agrees that information included in paragraph 147V is required to be disclosed as a quantitative reconciliation that explain reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans could be more understandable for users than a qualitative description that might not satisfy user needs.

Information about future cash flows

- 165 The ED requires entities with defined benefit plans to disclose information that enables users to understand the expected effects of the defined benefit plans on the entity's future cash flows. For plans that are closed to new members, the ED will require entities to focus its disclosures on communicating how long defined benefit plans that are closed to new members will continue to affect the entity.
- 166 EFRAG has received feedback, in particular from its consultative bodies that information about the expected effects of defined benefit plans on an entity's future cash flows is useful for users' analyses, with many confirming this to be the most relevant information they could receive about defined benefit plans. The proposals are therefore expected to result in information that is more relevant.
- 167 For plans that are closed to new members EFRAG has received feedback that it might be difficult to provide cash flow information. Such requirement needs to be tested in practice.
- 168 EFRAG observes that the information in Financial statements do not typically provide forward-looking information unless such information relates to the entity's assets or liabilities that exist at the end of the reporting period and is useful to users of financial statements.
- 169 The non-mandatory guidance in the ED on how the objective could be met, typically meet this condition as it relates to information about cash flows relating to the defined benefit obligation that exists at the end of the reporting period.
- 170 Such information would include expected future cash flows such as deficit repair payments for funded plans and payments to meet the defined benefit obligation for unfunded plans. EFRAG welcomes the addition in the ED of application guidance and illustrative examples on expected future cash flows relating to defined benefit plans as it will help an entity to apply judgements and to judge how to effectively meet the specific disclosure objective in different circumstances.
- 171 EFRAG observes that the question 14 (a) in the ED ask if constituents agree on whether the guidance included in paragraph 147M about the expected cash flow effects of defined benefit obligation recognised at the end of the reporting period should be mandatory. However, EFRAG notes that paragraph BC124 under the section 'Items of information to meet the objective (paragraphs 147L–147M)' of the Basis for Conclusions seems to state otherwise as it indicates that the information in 147M is not mandatory and is only part of the information to meet the objective. EFRAG also observes that paragraph 147M indicates that 'an entity provides;' and not 'shall provide'; which is the usual way the ED signals obligations throughout the ED.
- 172 EFRAG recommends that the IASB clarifies if it is its intention that information in 147M is mandatory. Notwithstanding this clarification, EFRAG is of the view that the information about the expected cash flow effects of defined benefit obligation recognised at the end of the reporting period could be mandatory because as indicated in paragraph 166 above this item will result in useful information for many users.

Non-mandatory disclosures

- 173 The approach is intended to help entities shift the focus from applying disclosure requirements like a checklist to consider whether objectives have been satisfied by exercising judgement and providing information based on the entity's circumstances. This may cause operational challenges for preparers, enforcers and auditors. For examples, entities might use information identified as non-mandatory as a checklist to meet the specific objectives rather than providing alternatives, as it may be easier and more straightforward. Also, non-mandatory information might be used as disclosure requirements by regulators or auditors; making them de facto required information. Therefore, as indicated in paragraph 44, a comprehensive field testing of the proposals will be necessary to better identify the operational challenges for preparers, enforcers and auditors.

Information about actual assumptions

- 174 Current IAS 19 requires entities to disclose the significant actuarial assumptions they use to determine the present value of their defined benefit obligation. Paragraph 147Q of the ED requires to disclose 'information that enables users of financial statements to understand the significant actuarial assumptions used in determining the defined benefit obligation'. To do so, the ED proposes to include items of information that, while not mandatory, may enable an entity to meet the specific disclosure objective about measurement uncertainties associated with the defined benefit obligation.
- 175 By providing a non-exhaustive list of items, we understand the intention of the ED that an entity provides selected information based on judgement about the assumptions that are significant to the measurement of the defined benefit obligation of the entity. However, EFRAG is concerned that entities either continue to disclose what they are currently disclosing under the IAS 19 disclosure criteria or provide a lot of immaterial information about assumptions that may affect the relevance of information as well as the comparability across entities.

Information about sensitivity / uncertainty

- 176 Existing IAS 19 requires entities to disclose a sensitivity analysis for each significant actuarial assumption used to determine the present value of the defined benefit obligations. EFRAG is aware that preparing assumption by assumption sensitivity analysis is costly. However, users consider sensitivity analysis quite useful, especially for material assumptions like discount rates or investment returns. The ED proposes the replacement of sensitivity analysis with a broader objective that requires information that enables users of financial statements to understand the significant actuarial assumptions used in determining the defined benefit obligation. This information is intended to help users assess the sources of measurement uncertainties in the entity's determination of the defined benefit obligation. In EFRAG's view it may not be clear what information related to uncertainties entities would need to disclose, besides sensitivity analysis. Paragraph 147S identifies non-mandatory examples that may enable an entity to meet the specific disclosure objective. However, it seems difficult than entities could convey information on uncertainties without providing a quantitative impact. Therefore, an illustrative example could be provided on this matter. The approach should be tested in practice through field testing to conclude about the usefulness of the information to be received.

Question to Constituents

- 177 The IASB decided that the benefits provided by sensitivity analysis would not outweigh the cost to entities of providing that information. Consequently, the IASB decided not to develop a specific disclosure objective about sensitivity of an entity's

defined benefit obligation to different assumptions. They consider that the specific disclosure objective in paragraph 147Q of the proposed amendments, which requires an entity to disclose information that enables users to understand the significant actuarial assumptions used in determining the defined benefit obligation will give users a reasonable idea of the range of possible values for the defined benefit obligation and enable users to compare the level of measurement uncertainty in defined benefit obligations between entities.

- 178 Do you agree with the IASB's proposal that benefits provided by sensitivity analysis would not outweigh the cost to entities of providing that information and, therefore, should not be required? Why or why not?

Notes to constituents – Overall objectives for defined contribution plans

- 179 *The IASB proposes in the ED to introduce an overall disclosure objective for defined contribution plans to require disclosing information that enables users of financial statements to understand the effects of defined contribution plans on the entity's financial performance and cash flows.*

Question 15 – Overall disclosure objective for defined contribution plans

Paragraphs BC156–BC158 of the Basis for Conclusions describe the IASB'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?

EFRAG's response

ERAG agrees that the proposed overall disclosure objective would result in the provision of useful information as users need information on the effects that defined contribution plans have on an entity's statements of financial performance and cash flows. However, EFRAG would have expected additional disclosure requirements as there are potential risks on these plans that might affect users decision-making process.

- 180 EFRAG considers that the proposals in the ED would not significantly change information about defined contribution plans.
- 181 We agree with that, for such plans, users need information on the effects that defined contribution plans have on an entity's statements of financial performance and cash flows, because such plans are unlikely to significantly affect the statement of financial position at the end of the reporting period.
- 182 Therefore, we agree with the description of the objective that 'an entity shall disclose information that enables users of financial statements to understand the effect of defined contribution plans on the entity's financial performance and cash flows.'. This is because IFRS Standards do not specify how entities should present amounts relating to employee benefits in the primary financial statements. Consequently, amounts relating to defined contribution plans may not be separately identified in those statements.
- 183 EFRAG welcomes that the ED equally emphasises information on the statement of income and on the statement of cash flows as there could be differences between the effect on the statement of financial performance and the effect on the cash flows.
- 184 We also agree that much of the information needed to satisfy the objective will be already available internally and therefore is not expected to be costly to prepare or impose an excessive burden on companies.

- 185 However, as there are more and more defined contributions plans, risk of different characteristics may emerge. EFRAG would have expected additional requirements on these plans. For example, there might be regulatory or internal agreements that exist at the reporting date and affect future contributions an entity will pay under a defined contribution plan scheme. EFRAG is concerned that with the overall objective included in the ED, potential risks of defined contribution plans might not be provided.

Notes to constituents – Disclosures objectives for multi-employer plans and defined benefit plans that share risks between entities under common control

- 186 *An entity that accounts for its participation in a multi-employer defined benefit plan as if it were a defined contribution plan or that participates in a defined benefit plan that shares risks between entities under common control and accounts for the contribution payable for the period in accordance with paragraph 41 of IAS 19 shall comply with the overall disclosure objective for defined contribution plans in paragraph 179 above and the specific disclosure objective on the nature of, and risks associated with, defined benefit plans in paragraph 148 above.*
- 187 *An entity that accounts for its participation in a multi-employer defined benefit plan as a defined benefit plan or that participates in a defined benefit plan that shares risks between entities under common control and accounts for an allocation of the net defined benefit costs in accordance with paragraph 41 of IAS 19 shall comply with the overall disclosure objective for defined benefit plans (see paragraphs 136-138 above) and all the specific disclosure objective for defined benefit plans (see paragraph 148 above).*

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 IASB’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?

EFRAG’s response

In relation to multi-employer defined benefit plan accounted for as if it were a defined contribution and defined benefit plan that shares risks between entities under common control where the contribution payable for the period is recognized in accordance with paragraph 41 of IAS 19, EFRAG agrees that compliance with only the overall disclosure objective for defined contribution plans would not sufficiently communicate the risks of these types of plans to users of financial statements. However, EFRAG considers that mixing the overall objectives of defined contribution plans with one of the specific objectives of defined benefit plans may create complexity in understanding and applying the requirements. We therefore suggest that the IASB considers including a specific disclosure requirement reiterating the applicable guidance.

- 188 EFRAG considers that there are two cases to consider regarding multi-employer plans:
- (a) multi-employer defined contribution plans which expose the participating entities to similar risks as other defined contribution plans. For these plans EFRAG agree that disclosure should follow the overall disclosure objective applicable to defined contribution plans (discussed in previous question); and

- (b) multi-employer defined benefit plan.
- 189 For the latter, IAS 19 allows entities to account for its participation as if it were a defined contribution plan if the entity has insufficient information to apply defined benefit accounting. Similarly, IAS 19 permits an entity with a defined benefit plan that shares risks between entities under common control to recognise a cost equal to its contribution payable for the period in its separate or individual financial statements.
- 190 In the two cases above, EFRAG agrees that compliance with only the overall disclosure objective for defined contribution plans would not sufficiently communicate the risks of these types plans to users of financial statements. This is because in the two situations mentioned in paragraphs 189, an entity would be exposed to many of the risks associated with other defined benefit plans and compliance with only the overall disclosure objective for defined contribution plans would not sufficiently communicate those risks to users of financial statements. However, such an entity is unlikely to have sufficient information to comply with all the proposed specific disclosure objectives for defined benefit plan.
- 191 We understand the intention in the ED that, for these two types of plans, the proposed amendments would require these entities to comply with:
- (a) the overall disclosure objective for defined contribution plans; and
 - (b) the specific disclosure objective proposed in paragraph 147G for defined contribution plans that requires an entity to disclose information that enables users of financial statements to understand:
 - (i) the nature of the benefits provided by the plan;
 - (ii) the nature and extent of risks, in particular the investment risks to which the plan exposes the entity; and
 - (iii) the strategies the entity has in place to manage the plans and that associated risks.
- 192 However, EFRAG considers that mixing the overall objectives of defined contribution plans with one of the specific objectives of defined benefit plans may create complexity in understanding and applying the requirements. We therefore suggest that the IASB considers including, in the section on multi-employer plans and plans under common control a specific disclosure requirement reiterating the guidance contained in 147G.

Notes to constituents – Overall objectives for other types of employee benefit plans

- 193 *The ED states that the overall objectives of disclosures for other types of employee benefit plans, which include short-term employee benefits, other long-term employee benefits and termination benefits, is to disclose information that enables users of financial statements to understand the effect of short-term employee benefits on the entity's financial performance and cash flows and the nature of other long-term employee benefits and termination benefits as well as their effect on the entity's financial position, financial performance and cash flows.*

Question 17 – Disclosures for other types of employee benefit plans

Paragraphs BC167–BC170 of the Basis for Conclusions describe the IASB'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?

EFRAG's response

ERAG considers that the proposed overall disclosure objective conveys with enough details the main information needs of users about other types of employee benefits

- 194 EFRAG agrees that for other types of employee benefits (which include short-term employee benefits, other long-term employee benefits and termination benefits) users primarily need information about their effect on the primary financial statements; when these effects are material
- (a) short-term employee benefits essentially have on an entity's financial performance and cash flows; whereas
 - (b) other longer-term employee benefits and termination benefits can significantly affect all of the three primary financial statements.
- 195 EFRAG agrees the proposed overall disclosure objective communicates enough the information needs of users of financial statements about these types of plans and that adding specific disclosure objectives is not necessary or would require to cover too many possible situations.
- 196 There is a wide variety of long-term employee benefits and termination benefits which may vary widely in nature and EFRAG agrees that for users of financial statements to assess the effect of employee benefit plans on the financial statements, they need to understand the nature of the benefits promised under the plans.

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?

EFRAG's response

EFRAG considers that transition requirements should be further investigated by the IASB as there might be a potential burden of new disclosures arising from the ED.

EFRAG suggest that the IASB assess whether specific disclosures on emerging pension plans such as hybrid plans should be included. As defined contribution plans might bear certain risks specific disclosure requirements on such type of plans could be useful and would avoid that certain hybrid plans are not properly disclosed.

- 197 EFRAG consider that transition requirements should be further investigated by the IASB. EFRAG raises concerns about the potential burden of this new disclosure requirements arising from the ED. There should be an analysis whether the proposed changes end as a complete re-writing of the disclosure requirements with higher levels of judgement and which would be the cost and time to implement it.
- 198 EFRAG also question whether in the cases where the new disclosure requirement results in a new disclosure approach if comparative information should be provided in the financial statement.
- 199 In recent years, defined benefit plans have lost prominence while other plans such as defined contribution plans or other types of plans such as hybrid plans, in which a minimum return is guaranteed, are becoming more and more common. The IASB might assess during its outreach events and field-testing activities whether there are

specific disclosures for these 'new' pension plans that are not considered in the ED but would help users in their decision-making process. As defined contribution plans might bear certain risks specific disclosure requirements on such type of plans could be useful and would avoid that certain hybrid plans are not properly disclosed.

DRAFT