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Disclosure Requirements in IFRS Standards—A Pilot Approach Issues Paper

Objective

- 1 The objective of the session is to provide EFRAG CFSS and EFRAG TEG with an update on the progress of the project and discuss EFRAG's field-testing activities conducted in close cooperation with the IASB and other outreach activities.
- 2 The CFSS-TEG session will also help prepare the discussion at the ASAF meeting on 29 June in which the IASB staff an update about its own outreach and field test activities (agenda paper 08-02 contains the ASAF agenda paper for background only).

Background

- 3 On 25 March 2021, the IASB published the exposure draft [ED/2021/3 Disclosure Requirements in IFRS Standards — A Pilot Approach](#) (the ED).
- 4 The ED proposed a new approach for the IASB to develop disclosure requirements and test that approach by applying it to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee benefits*.
- 5 The new approach would require entities to comply with:
 - (a) overall disclosure objectives that describe the overall information needs of users of financial statements; and
 - (b) specific disclosure objectives that describe the detailed information needs of users of financial statements.

EFRAG's preliminary views

- 6 EFRAG published a [draft comment letter](#) on 11 May 2021 which is open for consultation until 15 October 2021.
- 7 In its Draft Comment Letter, EFRAG supported the objective of the project to improve the relevance of disclosures and to develop a more rigorous methodology for the IASB to define objective-based disclosure requirements.
- 8 However, EFRAG noted a number of challenges as the proposed approach introduces a radical change to the way disclosures are being prepared with a higher level of judgement involved. That includes operational aspects of the new proposed guidance like lack of minimum requirements, balancing the requirements, comparability, auditability and enforceability. EFRAG also observes that different type of users may have different information needs (e.g., equity investors vs lenders) and these needs can vary over time. EFRAG notes the trade-off between providing relevant (entity-specific) disclosure and providing comparable disclosure and EFRAG encourages the IASB to further consider the interaction between the

proposals in the ED and the increased use of digital reporting, as comparability of the information is a pre-requisite of an effective use of technology-based reporting.

- 9 EFRAG considered the application of the proposed approach to the two tested standard but concluded that it was not in a position to express definitive views on the proposed changes and their expected effects, until EFRAG has conducted appropriate outreach and field testing. EFRAG raised concern in the draft comment letter some concern to the proposed new guidance for IFRS 13 and IAS 19 (e.g. on the replacement of the sensitivity analysis in IFRS 13 and IAS 19).
- 10 Therefore EFRAG commended that a comprehensive outreach and field testing of the proposals are undertaken to assess the operational challenges for preparers but also for enforcers and auditors; and assess whether the proposals would enable companies to apply effective judgement and provide information that is more useful to investors.

Field-testing the proposals

- 11 EFRAG, in close coordination with EFRAG Member Organisations, other European National Standard Setters and the IASB, is willing to conduct field-testing of the IASB proposals and has issued an invitation for companies to participate in its field test activities.
- 12 For that purpose, EFRAG launched, on 21 May, a [call to preparers](#) to participate in the field testing activities. To support the call for candidates and to better explain the approach and who should participate a [podcast](#) was published.

Objective of the field testing

- 13 The purpose of the field testing is to understand the possible impact in practice, identify potential implementation and application concerns, to determine whether there is a need for additional guidance, and to estimate the cost and effort required to implement and apply the proposals on a recurring basis.
- 14 The field testing is expected to provide EFRAG with insight on:
 - (a) Whether companies can effectively comply with the proposed disclosure objectives;
 - (b) The effect the proposed objectives could have on the quality and completeness of disclosures in financial statements (in potential of loss of material information); and
 - (c) Other practical effects including the effects on the companies' processes and implementation costs.

Scope

- 15 All EU companies applying IFRS are welcome to participate - corporates or financial institutions. EFRAG is specifically interested in including smaller or medium-sized companies in addition to large companies.
- 16 EFRAG is targeting companies from a broad range of industries (including financial Institutions, real Estate companies and other corporates) across Europe.
- 17 The field test will be conducted in close coordination with the IASB staff whenever possible (for European companies) in order to foster synergies with the IASB's own outreach activities and reduce the burden for volunteering companies participating to any of the field tests.

Process

- 18 Participating companies are asked to test the application of the proposed new requirements in IAS 19, IFRS 13 or both by assessing the effects of the proposals on the ED on their own disclosures affected by the proposals.

- 19 Participants can choose whether they would like to apply the proposals for IFRS 13, IAS 19 or for both.
- 20 Participating companies are asked to share fieldwork results using the following steps:
 - (a) submit mock note disclosures prepared applying the proposals;
 - (b) provide summary information about the process of developing those disclosures (through a questionnaire); and/or
 - (c) meeting with the EFRAG Secretariat to discuss the mock disclosures, follow-up questions, issues encountered and ideas for resolving those issues.
- 21 EFRAG will prepare feedback based on the field testing and this will be discussed by EFRAG in public meetings. Any information about the results of the fieldwork released publicly, will not allow readers to identify data about individual participants.
- 22 EFRAG will use the input collected to prepare the Final Comment Letter. EFRAG's Draft Comment Letter can be found [here](#).

Timing

- 23 The current period of consultation of the ED (which ends on 21 October 2021) implies that the results of the field test by companies are the end of August 2021¹.
- 24 This is because EFRAG will need to set up follow-up calls or meetings with the companies to analyse the results of the field test and will prepare feedback of the field testing for discussions with users, auditors, enforcers and other interested parties over the month of September and early October 2021.
- 25 The consideration of the above has led EFRAG to urge the IASB in the DCL to extend the consultation period of the ED to allow for the planned extended field-testing and outreaches. EFRAG will reiterate the suggestion at the end-of-June ASAF meeting.

Other planned outreach activities

- 26 EFRAG's workplan includes a combination of outreaches to a number of stakeholders and consultations with its advisory bodies throughout the ED's consultation period. These activities are presented in Appendix 1.
- 27 In particular, EFRAG is planning to hold two public online events (one educational event in end-June and one based on the results of the field work in end- September) 2021.

How can National Standard Setters continue helping with the process

- 28 EFRAG is highly interested in including a broad range of field test participants from representative countries and industries and to reach out to some of the smaller listed entities without sophisticated accounting departments.
- 29 Some members of CFSS have already helped identify and establish contact with possible participants to the field test in their jurisdictions. So far, EFRAG has received marks of interests from about 10 companies across 5 countries. Continued support from EFRAG CFSS is paramount to help identify additional candidates. EFRAG CFSS members may participate in the field-test with the entities in their respective jurisdictions.

¹ The IASB staff is considering a similar timeline for its own field-testing activities.

- 30 Members of EFRAG CFSS may also help in:
- (a) Identifying specific jurisdictional issues created by the proposals in the ED;
 - (b) Consider the need for local outreach events; and
 - (c) Reaching out to other interested organisations in their respective jurisdictions (auditors, accountants, actuaries, valuers.)
- 31 As illustration of possible jurisdictional issues, EFRAG has noted in its Draft comment letter:
- (a) The replacement of the requirement to provide information about sensitivity analysis of fair value measurement with a requirement to provide information that enable users to understand alternative fair value measurements using inputs that were reasonably possible at the reporting period end (see paragraphs 118 and following of EFRAG's [draft comment letter](#)); and
 - (b) The proposed guidance in the ED focuses on defined benefit plans and does not suggest specific disclosures for defined contribution plans (see paragraph 201 and following of the DCL). EFRAG noted that such plans may involve more complexity than the IASB seems to consider; as there may be regulatory or internal agreements that exist at the reporting date and affect future contributions by an entity under a defined. Illustrating this with practical examples coming from CFSS members' jurisdictions might help reinforce EFRAG's suggestions.
- 32 Finally, additional events could be held with national standard setters (possible in combination with other IASB projects) if there is enough interest for such events. At the March CFSS-TEG joint meeting, the EFRAG Secretariat invited interested members to contact the EFRAG Secretariat (disclosureinitiative-pilot@efrag.org).

Questions for EFRAG TEG- CFSS

- 33 Do EFRAG CFSS-TEG have identified or expect to identify possible companies candidates to participate to the test?
- 34 Do EFRAG CFSS-TEG have comments or suggestions on the field-test and outreach activities planned by EFRAG?
- 35 EFRAG addressed in its DCL that additional time for field testing and discussing the field test results with other interested parties like users, auditors and preparers would be beneficial. Do you agree with that proposal, or do you think there is sufficient time for testing the approach and giving feedback based on the field test results?
- 36 Do members identify specific jurisdictional issues that EFRAG would need to consider?
- 37 Are pension obligation (DBO or Hybrid Plans) common in your jurisdiction?
- 38 Do members plan specific activities during the consultation period to which EFRAG could participate?

Appendix 1: EFRAG’s work plan

39 EFRAG’s workplan includes a combination of outreaches, field testing and consultation with are presented below:

Date	Meeting	Objectives
3 March	CFSS-TEG	To discuss possible field work activities
31 March	FIWG	To collect views on the proposals on IFRS 13 disclosure requirements
14 April	EFRAG Pension Advisory Panel	To collect views on the proposals on IAS 19 disclosure requirements
21 April	TEG + User Panel joint meeting	To collect UP views on the proposals and field work activities
22 April	TEG	To agree to recommend a DCL to the EFRAG Board
5 May	EFRAG Board	To approve the publication of the DCL
May to July	Outreach work within EFRAG working groups	To collect views of the RRWG, IAWG, User Panel, Academic Panel on the proposals
10 June	Accountancy Europe meeting	To discuss EFRAG’s initial views and issues on auditability
16 June	CFSS- TEG joint meeting	To discuss field testing and how national standard setters can help.
30 June 2021	EFRAG Public Webinar	Educational event to promote debate (panel discussions)
May to August	Conduct Field testing jointly with the IASB	To test in coordination with the IASB the new disclosure approach in practice (IFRS 13 and IAS 19 or participants per standard)
May to September	Outreach to Regulators, Auditors, valuers, actuaries and other external parties	To consult ESMA, ECB, EIOPA, EBA, Accountancy Europe, IVSC, TeGoVa,
July to September	EFRAG TEG, User Panel, FIWG and PPAP,	Inform EFRAG TEG and other EFRAG WG to field work result and get final input on the CL
6 September	Accountancy Europe meeting	Attend discussion on Accountancy Europe comment letter
End of September	EFRAG Webinar jointly with the IASB and potentially user organisations	To consult different stakeholders on their input under consideration of the practical experience during field testing
October	Auditors and ESMA	Consult with auditors and ESMA based on field work result on auditability and enforceability
October	EFRAG TEG	To agree to recommend a FCL (and Feedback Statement) to the EFRAG Board
November	EFRAG Board	To approve publication of FCL