

EFRAG TEG meeting
20 October 2021
Paper 08-01

EFRAG TEG MEETING

DISCLOSURE REQUIREMENTS IN IFRS STANDARDS

Field work and outreach events update

20 October 2021

Disclaimer

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Objectives of the session

The objectives of the session are to:

- provide EFRAG TEG with an update on the progress with field-testing, public events and other outreach activities conducted since June 2021;
- Share early views and messages heard so far; and
- Ask EFRAG TEG for their advices on next steps.

No decisions are expected from EFRAG TEG at this meeting.

Agenda

1. Update on field-testing activities
2. Public events since June 2021
3. Other Outreaches Activities
4. Next Steps and Work Plan

1- Update on field-testing activities

1. Update on field-test activities

Objectives of the field test

In its DCL EFRAG assessed that field testing the proposals was essential to form a final view on the effects of the proposals in the ED and their applicability. Field test will help to assess whether the proposals would enable companies to apply effective judgment and provide information that is more useful and will inform about the operability and costs.

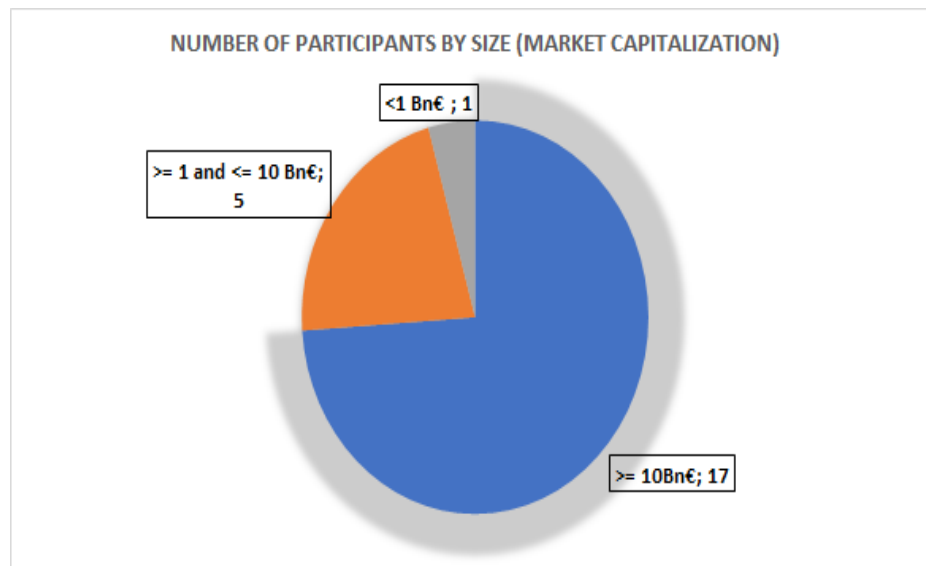
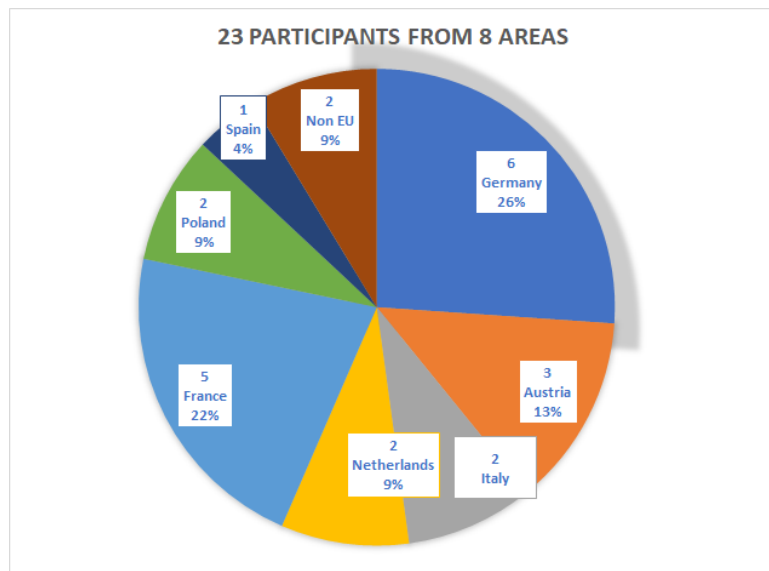
EFRAG Secretariat invited interested participants to contribute their input in a variety of ways:

- Mock note disclosures based on the ED proposals.
- Questionnaire about developing mock disclosures.
- Meeting to discuss mock disclosures, follow-up questions, issues and solutions.

We have additionally undertaken a few other initiatives to engage with smaller and medium-sized listed entities (see slide 8).

1. Update on field-test activities

Current status



- **18** companies agreed to prepare **mock disclosure** for one or both of the tested standards. **5** companies will provide more **limited input** either via questionnaire or interview.
- The deadline for participants to provide the results of their fieldwork to both EFRAG and the IASB is 25 October.
- **Smaller and medium sized entities** (<Market Cap < 1 Bn) remain **clearly under-represented** (only one in the sample).

1. Update on field-test activities

Specific approach tailored for smaller entities

EFRAG has undertaken a number of initiatives to reach out to small/medium-sized entities.

- **Online questionnaire issued on 7 October** ([here](#)) includes tailored questions on the IASB proposed guidance and on the tested standards (IAS 19 and IFRS 13). Consultation until 20 November.
- As an alternative, **structured interviews** with EFRAG Secretariat are offered (possible in different languages).
- Request to large fieldwork participants whether they have **subsidiaries or sub-groups** reporting under IFRS that are willing to fill out the questionnaire.
- Try to reach out to a broad set of **accountant/ audit organisations** that provide professional services to smaller listed entities and **other preparer organisations**.
 - To help find small /medium entities willing to participate in field test.
 - To capitalise on their knowledge of the organisations about smaller entities and how the ED may impact them.

Question to EFRAG TEG

Do EFRAG TEG members have other suggestions to reach out to small or medium size companies?

1. Update on field-test activities

Initial feedback from participants in the field test

- At the date of writing, 3 participants had provided their deliverables (2 in the form of mocked disclosures and one by responding to a questionnaire).
- Feedback summarised below is therefore preliminary and limited and not representative of the overall output of the entire field-test exercise. We expect to collect all mock disclosures by end of October and be able to provide more meaningful overview at the November TEG.

Main messages heard:

- The ED and field test exercise provides an opportunity to have a fresh look at existing disclosures and revise them when necessary.
- New approach expected to provide more useful information and ease the reading of the Standard. However, concerns about auditors' expectation and the need for a minimum set of disclosures.
- Entities which tested the new approach did not identify major changes with respect to their existing disclosures.
- New approach expected to work better with brand new standards than with 'legacy' ones where practices and expectations have developed over time.
- Entities do not expect significant costs (perhaps one-off costs) nor significant changes of process and systems in their specific situation.

1. Update on field-test activities

Initial feedback from participants in the field-test

(continued)

- Entities would expect additional co-ordination efforts with their auditors as there might be different opinions regarding the necessity of suggested items of information. After the initial year of application (introductory phase), they do not expect intensified conversations with auditors.
- One financial entity suggested that the IASB coordinates with regulators as some regulatory requirements may contradict the IASB proposed objective-based approach (i.e., FINREP requires non-material information to be disclosed for regulatory purposes)

2 – Public Events

2. Public Events

3 public events held so far:

- 30 June 2021 - *EFRAG IASB JOINT WEBINAR - TARGETED DISCLOSURES: HOW WOULD IT WORK IN PRACTICE?*
- 5 October 2021: *DI FSR - EFRAG - IASB PUBLIC WEBINAR - DISCLOSURE REQUIREMENTS IN IFRS STANDARDS* (main focus Danish stakeholders)
- 7 October 2021 - *ASCG – EFRAG JOINT PUBLIC DISCUSSION* (main focus German stakeholders)

Question to EFRAG TEG

Are EFRAG TEG aware of other public (or closed) events on the ED to which EFRAG may contribute ?

2. Public Events

EFRAG – IASB Joint Event – 30 June 2021

Event organisation

- On 30 June, EFRAG held an educational event together with the IASB (participants from different backgrounds such as users, preparers, auditors, enforcers and for IAS 19 an actuary, shared their views and concerns on the proposals in the IASB's ED). A summary report of the event is available [here](#).
- The IASB and EFRAG presented their initial views on the objective-based approach and on the amendments to IAS 19 and IFRS 13.
- The outreach event had around 100 registrants with an average of 80 live viewers from whom more than half were preparers and from the accounting profession.

2. Public Events

EFRAG – IASB Joint Webinar – 30 June 2021

Main Messages- Overall approach

- Developing and testing Objective-based approach generally supported by participants – considering the information needs of users is appropriate but there should be guidance on the user need and a balance with the consideration of preparers' views.
- Several participants shared EFRAG's tentative views that, considering the higher level of judgement required, a list of minimum disclosure requirements would be helpful to allow comparability and mitigate issues of comparability, auditability and enforceability.
- A balance needs to be found between detailed disclosure requirements and requirements to comply with objectives. A good example for this to look at could be IFRS 7.

Main messages on IAS 19 / IFRS 13

- The concerns in respect to IFRS 13 and IAS 19 focus on the extensive judgement that is required with the new approach and the challenges that come with it as well as the sensitivity analysis.

2. Public Events

DI FSR - EFRAG - IASB PUBLIC WEBINAR

Event organisation

- Joint outreach event held by EFRAG in cooperation with Confederation of Danish Industry (DI), FSR – Danish Auditors and the IASB on 5 October.
- ‘Hybrid’ event with some participants present in Copenhagen.
- Presenters had diverse professional backgrounds such as; preparers, accounting profession and professional organisations.
- The outreach event had around 100 registrants with an average of 60 live viewers from whom more than half were preparers and from the accounting profession.
- The discussion focused mainly on the general objectives-based approach proposed in the ED and its application to IFRS 13 (organisers anticipated less interest in IAS 19 proposals in the Danish context).

2. Public Events

DI FSR - EFRAG - IASB PUBLIC WEBINAR

Main messages on the objective-based approach

- The IASB approach is a step in the right direction. However, materiality and users' information needs should be better explained and defined in the proposed IASB Exposure Draft Guidelines. Materiality for disclosures needs to be determinable. User needs need clarification (common user need or is one user enough) and it needs to be clear for what the disclosures are useful.
- There is still uncertainty on the requirements for preparers and additional discussions with auditors and enforcement agencies are needed.
- Considerable difficulties may be experienced by smaller entities compared to larger firms and the right balance between mandatory and non-mandatory information should be found.
- Support to include a set of minimum disclosure requirements which may especially be needed by small and medium entities to reduce the additional workload and to reach beside this a certain level of comparability.

Main messages on IFRS 13

- Sensitivity analysis is necessary because it better illustrates the uncertainty that comes with level 3 measurements than an alternative.

2. Public Events

ASCG – EFRAG Joint Public Discussion

On 7 October the ASCG in collaboration with EFRAG and the IASB held a joint public discussion event on the proposals in the ED

Main messages on the objective-based approach

- General support for an approach based on identification of users' information needs and disclosure objectives. But some skepticism about the ability to really change behaviors.
- ED involves radical changes to current disclosure requirements – also differs significantly from other currently observable developments (e.g. recent disclosures required by the Taxonomy Regulation in the area of sustainability reporting).
- ED lacks guidelines on the basis upon which a decision can be made as to which information is to be disclosed in the notes. Additional application guidance is necessary and will require significant efforts. In particular need for more guidance on determination of quantitative materiality thresholds.
- Sympathy for the "alternative view" (i.e. combination of disclosure objectives with mandatory disclosures).
- Effect of the recent other changes introduced by the Disclosure Initiative (definition of materiality, Materiality PS...) need to be considered.

2. Public Events

ASCG – EFRAG Joint Public Discussion

Main messages on IFRS 13

- No support for the proposal to disclose range of alternative FV for both conceptual and practical reasons. Concerns about the lack of clarity about the application of this requirements to all levels in FMV hierarchy.
- Some disclosure objectives too narrowly defined (cf. e.g. the disclosure target on measurement uncertainties) - no or hardly any leeway with regard to the information to be disclosed considering the suggested 'non-mandatory disclosures'.
- The levels of the fair value hierarchy could be reconsidered by the IASB, as they can lead to misleading signals in the external presentation (items classified as Level 3 convey the idea of high uncertainty and triggers expanded disclosure that is not always justified).
- Regarding Assets and liabilities not carried at FV but for which fair value is disclosed in the notes, current disclosures for corporates are in many cases of little use to users and should be reconsidered.
- Need to allow a sufficient time transition period (adaption of reporting systems by preparers but also need auditors and regulators to apprehend the new disclosure requirements).

2. Public Events

ASCG – EFRAG Joint Public Discussion

Main messages on IAS 19

- Agree that disclosure of the expected effect on future cash flows be limited to the recognised DB obligations.
- Separate disclosure objective for pension plans that are closed to other beneficiaries is not useful as information needs are similar to open plans.
- Sensitivity disclosures should continue to be mandatory. This fits well with the measurement of DB obligations conceptually designed as a 'best estimate'. Providing a range of alternative measurements (as suggested in the non-mandatory examples) is not useful.
- Support for the "executive summary" proposed in the ED.
- General Support for the proposals on defined contribution plans. However, from user perspective, it would be simpler to specify direct mandatory disclosures for DC plans
- The proposals on "other employee benefits" were supported. Participants did not address multi-employer plans.
- Regarding hybrid plans, the IASB should first reconsider the accounting for such plans before considering additional disclosures. Note that hybrid plans are generally accounted for as DB not as DC plans.

3 – Other outreach activities

3 – Other outreach activities

Initial feedback from various stakeholders

EFRAG Secretariat has already discussed the ED with the following organisations:

- ESMA
- EPRA and ZIA (real estate associations)
- Tegova (EVS) and IVSC (valuers)
- Accountancy Europe (auditors)
- EEA (academics)
- CRUF (users)
- Aon Hewitt (actuaries)
- Amana (IT)

3 – Other outreach activities

Initial feedback from various stakeholders

The main comments provided by the various organisations previously listed are as follows:

- Most of the organisations EFRAG has talked to so far – similar to EFRAG TEG working groups - had not yet formed a final view on the proposals.
- They generally agreed with EFRAG that a comprehensive field-testing is necessary to form a final view.
- Level of Judgement and application of the concept of materiality are main topics discussed. Enforceability and auditability were seen as possible issues and should be addressed in the field-testing/ Outreaches.
- Introduction of specific disclosure objectives seen as an improvement as well as basing the approach on the identification of users' needs. But balance with preparers' perspectives is also important
- Concern that higher level of judgement (in the absence of minimum/baseline requirements) may create challenges in particular for less resourced or sophisticated firms who might just revert to the existing checklist approach.
- Concerns about effects on comparability.

3 – Other outreach activities

Initial feedback from various stakeholders

- It is Important that the IASB explains in the basis for conclusions that preparers do not need to understand specific users' needs. Instead, their judgment on materiality will be performed based on common information needs as identified in the guidance
- Concerns that the reference to “Non-mandatory disclosures” may be confused with voluntary disclosure.
- Sensitivity analysis are meaningful disclosures and should be provided for the most relevant assumptions.
- From the valuation community, reservations are likely to revolve around the requirements that information will be provided to clients on ‘reasonably possible alternative Fair Value measurements’ to reflect uncertainty that may exist regarding any significant inputs. **How will this be implemented in practice and what auditors will expect? How will ‘reasonably possible’ be interpreted?** “Alternative fair values” may often not be straightforward and would involve varying degrees of subjectivity, especially for asset classes in thinner markets or for income or cost based valuations. A good valuation report should highlight the relevant judgements made.

3 – Other outreach activities

Initial feedback from various stakeholders

- Reluctance from valuers are likely to centre on increased time/cost especially related to discussions with auditors.
- Field testing involving valuers may be sensible.
- However, valuers cannot disapprove of steps to improve the appropriateness of information disclosures to clients. Applied sensibly and proportionately this could benefit clients and valuers alike.

Academic Research can inform the project:

- Variety in information needs of investors and creditors and use information in different ways.
- Objectives of disclosure for decision-making and for stewardship sometimes compete
- Principle-based disclosure can lead to inconsistent outcomes and more difficult to enforce and audit. Known impediments to voluntary disclosures(avoid setting a precedent, commercially sensitive information, reaction of enforcers...).

4. Next steps and Work Plan

Main activities over Q4 2021 is expected to include the following:

- Private meetings and workshops with field test participants over October and November. The objective is to discuss mock disclosures and that various participants can share at a time their practical experiences on key matters.
- EFRAG's Public outreach event **in Nov/Dec to publicise and discuss field test results.**
- Subject to the agreement of fieldwork participants, private meeting with EFRAG working group members with **user background** to discuss field participants mock disclosures on an anonymised basis.
- Subject to the agreement of fieldwork participants, private meeting with EFRAG working group members with **audit background** (also an actuary for IAS 19) to discuss field participants mock disclosures on a non-anonymised basis. EFRAG may involve enforcers to discuss mock disclosures on this meeting or on a separate meeting.
- Meeting(s) with auditors / accountants and other organisations of smaller companies to be scheduled in November. Based on the result of the questionnaire/invitation for interview that was published on Oct 7 there will be specific discussions with auditors of small or medium sized entities on the expected impact for this group.

4. Next steps and Work Plan

Field test

| Date | Activity | Objectives |
|---------------------------|--|---|
| 25 October | Candidate companies to prepare mock disclosures or fill-in questionnaire | To test in coordination with the IASB the new disclosure approach in practice (IFRS 13 and IAS 19 or participants per standard) |
| Mid to end November | Workshops with fieldwork participants . in small groups. (IASB staff and National Standard Setters as observers) | To share experience between participants and discuss field test results |
| Late November or December | EFRAG Webinar jointly with the IASB and potentially user organisations (public event) | To consult different stakeholders on their input under consideration of the practical experience during field testing |
| Late November or December | Meetings with selected members of EFRAG working groups with user background. (Field-test participants invited to attend on a voluntary basis). | To share results of field test (on an anonymous basis) and discuss the usefulness of the information in mock disclosures |
| Late November or December | Sharing results of field test with Enforcers (subject to agreement by participants. Review by NCA with ESMA coordinating the input. | To collect Enforcers views |
| Late November or December | Meetings with selected members of EFRAG working groups with auditing background. Enforcer (ESMA) invited to attend and share the input from NCA’s review.Field-test participants invited to attend on a voluntary basis). | To share results of field test (on a non-anonymous basis) discuss the results of the field test and auditability / enforceability matters |

4. Next steps and Work Plan

Specific diligences targeted towards for small and medium-sized entities

| Date | Activity | Objectives |
|---------------------------|---|---|
| 7 October to 20 November | Online questionnaire and invitation for an interview . | To get feedback on the new approach to developing disclosure requirements from small and medium entities, |
| Late November or December | Reach out to a broad set of accountant/ audit organisations that provide professional services to smaller listed entities and other preparer organisations. Possible workshop with SMPs/auditors of smaller listed entities. | To discuss their perspectives on the expected effects of the ED on smaller and medium-sized companies Findings from the questionnaire for small and medium sized entities would be the basis for the workshop. |

Finalisation of EFRAG's Comment Letter

| Date | Activity | Objectives |
|-----------------|------------------|---|
| 24 November | EFRAG TEG CFSS | To provide an update on the field-test results and discuss ASAF topics. |
| 7 December | EFRAG User Panel | Inform about field work result and get final input on the CL |
| 21 December | EFRAG TEG | To provide an update and discuss key messages for FCL |
| 18 January 2022 | EFRAG TEG | To agree to recommend a FCL (and Feedback Statement) to the EFRAG Board |
| 26 January 2022 | EFRAG Board | To approve publication of FCL |

4. Next steps and Work Plan

EFRAG's Project Timeline

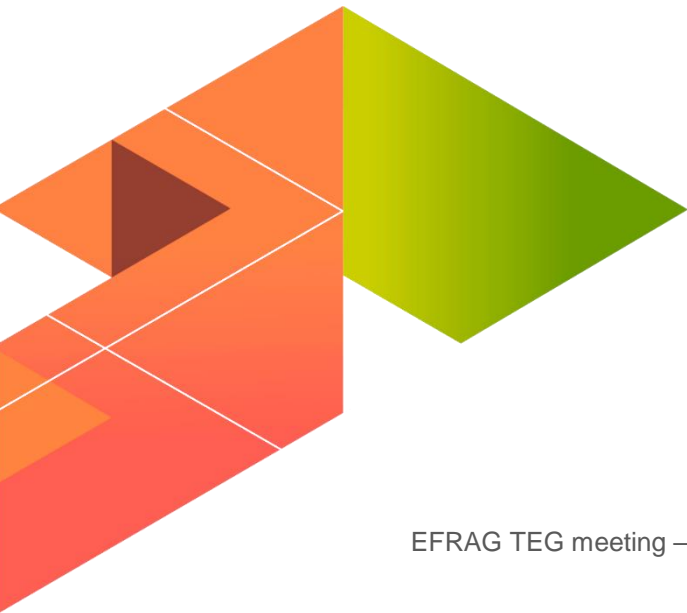


Questions to EFRAG TEG

1. Do EFRAG TEG members have comments or suggestions on the field-test and outreach activities planned by EFRAG?
2. Do EFRAG TEG members have comments or suggestions on the limited feedback gathered by EFRAG so far?



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