

EFRAG TEG-CFSS meeting
24 November 2021
Paper 08-01

EFRAG TEG-CFSS MEETING

DISCLOSURE REQUIREMENTS IN IFRS STANDARDS

Project Update

24 November 2021

Disclaimer

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Objectives of the session

The objectives of the session are to:

- provide EFRAG TEG-CFSS with an update on the progress with field-testing; and
- provide EFRAG TEG-CFSS with an update on public events and other outreach activities conducted
- provide EFRAG TEG-CFSS with an update on the workshops conducted in agreement with the IASB

Agenda

1. Update on field-testing activities
2. Public events
3. Other Outreach Activities

For Background purposes attached: Next Steps and Work Plan



Section 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:

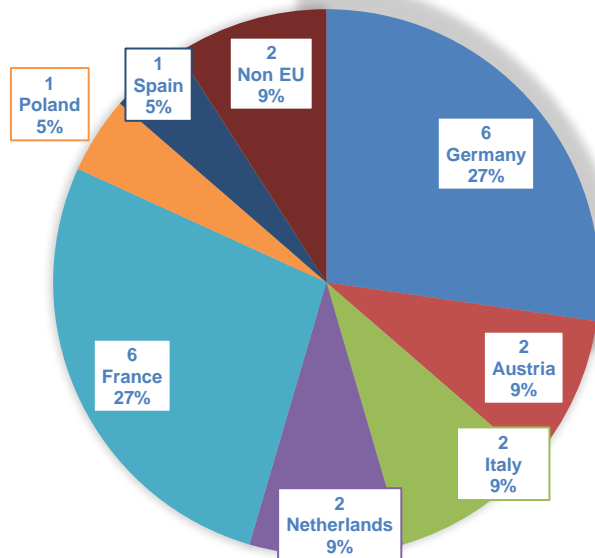
- Mock note disclosures based on the ED proposals.
- Questionnaire about developing mock disclosures.
- Meeting to discuss mock disclosures, follow-up questions, issues and solutions.

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

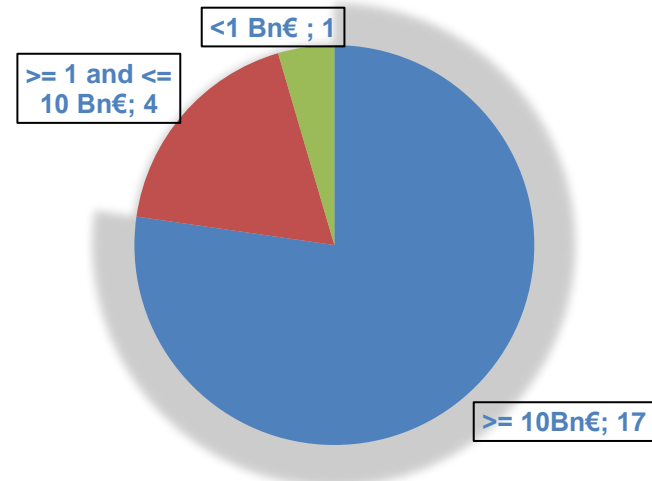
1. Update on field-test activities

Current status

22 PARTICIPANTS FROM 8 AREAS



NUMBER OF PARTICIPANTS BY SIZE (MARKET CAPITALIZATION)



- **22** companies agreed to prepare **mock disclosure** or provide more **limited input** either via questionnaire or interview for one or both of the tested standards.
- Several industries are covered, 8 are Financial Institutions, 3 are from the Real Estate Sector.
- **Smaller and medium sized entities** (<Market Cap < 1 Bn) are underrepresented.
- EFRAG conducted **3 workshops** with 15 companies that agreed to prepare **mock disclosure or limited input** via questionnaire. Participants could discuss field test experience amongst them and share their experience with EFRAG and the IASB. The summary report will be published End Nov.

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 and to substitute the time-consuming field test participation.

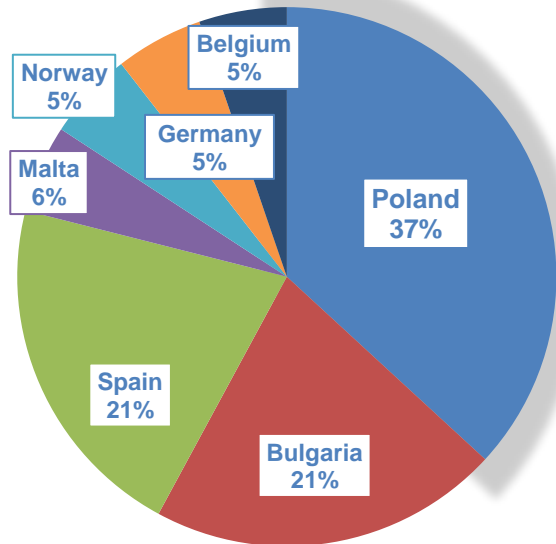
- **Structured interviews** with EFRAG Secretariat are offered (possible in different languages).
- Request to large fieldwork participants whether they have **subsidiaries or sub-groups** reporting under IFRS that are willing to fill out the questionnaire.
- Set a series of individual meeting with **accountant/audit organisations** that provide professional services to smaller listed entities and **other preparer organisations**.
 - To help find small /medium entities willing to participate in outreach.
 - To capitalise on their knowledge of the organisations about smaller entities and how the ED may impact them.
 - To discuss audit implications

1. Update on field-test activities

Specific approach tailored for smaller 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).
- Currently, we have received 19 responses from seven different jurisdictions.
- **Entities can still participate** (consultation until 30 November).

19 PARTICIPANTS FROM 7 AREAS



1. Update on field-test activities

Initial feedback from participants in the field test

- At the date of writing, **20 participants provided their deliverables** either in the form of mock disclosures or by responding to the IASB questionnaire. Three workshops were held with corporates and financial institutions to discuss their field test result.

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.
- The disclosure objectives in the ED were generally considered understandable by participants in the field test and they did not raise major questions to EFRAG/IASB staff.
- The disclosure objectives were welcomed by all participants. They make the requirements understandable. Objectives help in deciding about the appropriate level of information to disclose in an appropriate structure and to reduce some of the information. They are a basis for a discussion with the auditors.
- Several participants pointed out the usefulness of disclosure objectives, however, they noted that it will bring more subjectivity and a higher level of judgement involved. Thus, it may lead to a lack of comparability.
- The judgement involved needs to be documented. Some participants considered the approach therefore more costly. A few see no additional efforts and therefore costs from the new approach.

1. Update on field-test activities

Main messages heard (continued):

- Some participants pointed out the risk that the detailed list of non-mandatory disclosures (list of items of information) may be interpreted as a new checklist comprising information that can be omitted only if quantitatively immaterial.
- In this context several mentioned that a checklist approach might also be driven by the auditors and their audit approach.
- Some entities mentioned the proposed approach might be challenging from an operational point of view. Those preparers requested more guidance.
- In this context the consolidation process and its challenges was mentioned. Some remarked that an 'internal check list' would still be necessary to send the instructions to the subsidiaries. It was remarked the judgment on relevance of information and materiality cannot be delegated to a lower level. In order to assess on group level what is material detailed information from subsidiaries needs to be collected (which can be costly).
- The majority of the entities noted that the approach may require additional discussions with the auditor and enforcement bodies when it comes to the exercise of judgement which will lead to unexpected costs and additional work burden. A few field test participants did not anticipate difficulties with its auditors.

1. Update on field-test activities

Main messages heard (continued):

- Several participants requested minimum disclosure requirements (similar as expressed as alternative view from some IASB Board members and similar to the EFRAG DCL). Some others were satisfied with the approach and the possibilities offered by the objective-based approach to disclose entity specific information.
- Participants generally identified limited and targeted changes; including information that was not previously provided, enriching existing information, exclusion of specific information and/or restructuring of the information. These participants prepared the mock disclosures by comparing the existing disclosures to the provisions in the ED.
- Participants generally had no specific dialogue with users to prepare the mock disclosures, some considered previous questions received by analysts, and some don't expect additional dialogue going forward.
- Entities generally did not identify fundamental changes to their systems and processes, but they still expect some cost implications to arise which range from one-off costs to ongoing costs. These cost implications are mainly driven by the auditor and judgment discussion.
- Especially financial institutions requested a dialogue with the regulators. Some of the disclosures are not material even if requested by regulators. The ED can create the opportunity for an open discussion.

1. Update on field-test activities

Questions specific to IAS 19 proposals

- Some entities questioned the objective or usefulness of some of the proposed non-mandatory items of information:
 - *Alternative actuarial assumptions reasonably possible at the end of the reporting period that could have significantly changed the defined benefit obligation.*
 - *Expected return on assets.*
 - *Reasons why actuarial assumptions significantly changed during the reporting period.*
 - *The entity's approach to determining the actuarial assumptions used, such as how the inflation rate was assessed, or the model used to determine longevity assumptions*

1. Update on field-test activities

Questions specific to IAS 19 proposals – Defined Benefit Plans

- Some participants considered to continue with the sensitivity analysis even if it would not be mandatory as they provide useful information. One of them noted that sensitivity is the best means to show clearly the measurement uncertainties of defined benefit obligations. Two participants removed the sensitivity disclosures and did not provide alternative disclosures beside the disclosures of the significant assumptions used.
- Two participants questioned the specific disclosure objective that require entities to disclose information on the period over which the entity will continue to make payments to members of its DBP that are closed to new members. They wonder why limiting this information to plans that are closed to new members.
- On the specific disclosure objective that require entities to disclose the nature and extent of the risk to which the plan exposes the entity, one participant pointed out that it is not clear whether the investment risk is on the asset plan side or whether it relates to liquidity risks linked to the underlying commitment.
- According to the ED an entity may provide information about the expected FCF as a whole, without differentiating between those that meet the DBO and other expected future cash flows. One participant expressed the view that users could be confused by the mismatch of DBO and “full cash flows” as the latest do not reflect the DBO as at balance sheet date.

1. Update on field-test activities

Questions specific to IAS 19 proposals – Defined Benefit Plans

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 - *Expected return on assets.*
 - *Reasons why actuarial assumptions significantly changed during the reporting period.*
 - *The entity's approach to determining the actuarial assumptions used, such as how the inflation rate was assessed, or the model used to determine longevity assumptions*

1. Update on field-test activities

Questions specific to IAS 19 proposals – Employee benefits other than DBP

- One entity expressed the view that the requirements on defined contribution plans were not enough. They suggested the IASB to include more comprehensive disclosures on this type of plans as well as its legal and regulatory features, especially in jurisdiction where these plans are significant.
- On employee benefits other defined benefit plans one entity noted that it is unclear, what additional disclosures are expected by the IASB in comparison to the current disclosure practice. Another participant suggested the IASB to add non-mandatory items of information for other long term employee benefits in the ED

1. Update on field-test activities

Questions specific to IFRS 13 proposals

- Some entities (mainly financial institutions) had concerns regarding requiring information for fair value measurement uncertainties other than those categorised within Level 3.
- Some participants (financial institutions) do not consider to disclose additional information for Level 2 (L2). But anticipate difficulties if reasonably possible alternative fair value measurement were also to be provided for L2 measurements.
- Several participants (financial institutions) found the requirements in the ED unclear on what to disclose on alternative fair values and fair value measurements other than those categorised within Level 3.
- Most of participants (financial institutions, real-estate and corporates) considered that their current disclosures on adjustments to the unobservable inputs for Level 3 instruments will also meet the ED's requirement on alternative fair value measurements.
- Some companies (real-estate) were relatively unaffected by the ED as they classified their entire Investment Properties (e.g., capitalisation rate, estimated rental value...) portfolios as Level 3 (and do not have financial instrument derivatives).

1. Update on field-test activities

Questions specific to IFRS 13 proposals

- Many participants (financial institutions) mentioned that L3 analysis is highly manual (excel), and there would be many challenges if also required for L2 given the size of the L2 population.
- Several participants (financial institutions) were concerned about overstating the level of exposure to fair value changes if gross information about alternative fair value measurements is given for exposures that are managed on a net basis (e.g., via a hedging relationship or because, for example, an interest rate movement will affect assets and liabilities in opposite ways).
- Some participants emphasised that financial institutions are highly regulated and some of the disclosures are not material even if requested by regulators (ECB). The ED can create the opportunity for the regulator to rethink this.
- Several participants (financial institutions, real estate and corporates) stated that their current disclosures are very comprehensive and addressed the disclosure objectives and for some it was not clear how the proposed approach would improve existing disclosures and better address users' needs.



Section 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 on Danish stakeholders)
- 7 October 2021 - *ASCG – EFRAG JOINT PUBLIC DISCUSSION* (main focus on German stakeholders)

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 Event – 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 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.



Section 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)
- Business Europe

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...).

Questions to EFRAG TEG-CFSS

1. Do EFRAG TEG-CFSS members have comments or suggestions on the field-test and outreach activities planned by EFRAG?
2. Do EFRAG TEG-CFSS members have questions on the feedback gathered by EFRAG so far?
3. What feedback have EFRAG TEG-CFSS members received from their jurisdictions on the proposed ED?



Background Information

Next steps and Work Plan

Next steps and Work Plan

Main activities Nov and Dec 2021 is expected to include the following:

- Private meetings with some more field test participants.
- Prepare a summary report for the workshops conducted where various participants could share at a time their practical experiences on key matters.
- EFRAG's Public outreach event **in December to publicise and discuss results.**
- Private meeting with EFRAG working group members with **user background** to discuss field test participants mock disclosures on an anonymised basis.
- 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 (FS preparation and audit).

Next steps and Work Plan

Field test

Date	Activity	Objectives
Ongoing (initial deadline 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)
Nov 29	Meetings with selected members of EFRAG working groups with user background.	To share results of field test (on an anonymous basis) and discuss the usefulness of the information in mock-up disclosures
Nov 29	Meetings with selected members of EFRAG TEG and EFRAG working groups with auditing background. (Field-test participants invited to attend on a voluntary basis).	To share results of field test (on a non-anonymous basis) and discuss audit issues on mock-up disclosures
End November	Summary report Workshops with fieldwork participants . in small groups. (IASB staff and National Standard Setters as observers)	To publish the shared experience between participants and discuss field test results
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
Beg /Mid Dec	EFRAG Webinar jointly with the IASB and potentially Business Europe or a user organisations (public event)	To consult different stakeholders on their input under consideration of the practical experience during field testing

Next steps and Work Plan

Specific diligences targeted towards for small and medium-sized entities

Date	Activity	Objectives
7 October to 30 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. Auditors will be approached in separate interviews	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 interviews.

Next steps and Work Plan

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.
2 December	EFRAG FIWG	Inform about field work result and get final input on the FCL
7 December	EFRAG User Panel and IAWG	Inform about field work result and get final input on the FCL
8 December	EFRAG Pension Plans Advisory Panel	Inform about field work result and get final input on the FCL
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

Next steps and Work Plan

EFRAG's Project Timeline





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