Disclosure Requirements in IFRS Standards

Towards a Final Comment Letter
Issues Paper

Objective

1 The objectives of the session are to:

(a) share with EFRAG TEG the input gathered from the field test and outreach activities on the ED Disclosure Requirements in IFRS Standards (The 'ED'); and

(b) seek EFRAG TEG initial orientation on the approach to the final comment letter due to be recommended by EFRAG TEG at its January 2022 meeting.

2 The discussion of the proposed changes to the comment letter will take place at a future meeting on the basis of the complete feedback, including the analysis of the comment letters.

Overview of the feedback received from EFRAG's outreach and field test activities

3 As explained in the cover letter, the EFRAG Secretariat has conducted extensive outreach and field test activities involving a wide range of stakeholders.

4 The following sections provide a consolidated summary of the emerging views from these activities and considers possible effects for the drafting of EFRAG's final comment letter. More detailed feedback can be found in papers 08-03 to 08-05.

5 It is noteworthy that EFRAG expects to gather additional input from its constituents in the responses to the public consultation on its draft comment letter which closes on 4 January 2022. That additional input, which will be presented at the EFRAG TEG meeting on 18 January 2022, will be crucial in forming final views on the proposals in the ED.

6 For that reason, EFRAG TEG is not asked to make decisions at this meeting. The complete input and feedback will be examined by EFRAG TEG at its January 2022 meeting; when a final comment letter will be recommended for the consideration of the EFRAG Board.

- **Part 1** - Feedback on the overall approach in the ED
- **Part 2** - Feedback on the application of the approach to the two tested standards
- **Part 3** - Possible approaches to EFRAG's final comment letter?

Part 1 - Overall Approach

Feedback from Users

7 EFRAG collected input from users in a variety of ways:

(a) The EFRAG user panel was consulted twice in April and December 2022, respectively;

(b) A workshop with user members of EFRAG's working groups was set up on 29 November to discuss the results of the field testing of the proposals with preparers.

(c) Users speaking at two of EFRAG's four public events held in 2021.

(d) Closed meetings with some Users' organisations.

8 As noted above, additional feedback may be expected from users in the responses to EFRAG's public consultation on its draft comment letter and will be shared at the January EFRAG TEG meeting.

9 The main feedback received to date from users is summarised below.

10 Users generally assessed that it would be difficult to ensure comparability across entities and over periods with a pure objective based approach as proposed in the ED. If there is no consistency in information provided, there is a risk of reduced usefulness.

11 However, users also generally welcomed the introduction of overall and specific disclosures objectives to explain why the information is needed. Users generally agreed with the proposed objectives in the ED.

12 They generally assessed that the best option would be to keep a certain level of mandated disclosures while introducing objectives and other material explaining why the disclosures are needed. Some noted that only a minimum set of prescribed disclosures should be required, and that otherwise requirements should be given through disclosure objectives for additional entity specific information.

13 They also noted that disclosure objectives may encourage entities to disclose additional entity specific information beyond the list of mandated information that they are providing with the current approach. They may also provide a 'legal' basis that help auditors and enforcers to require additional information beyond "the minimum checklist." Conversely having only minimum list may result in entities (in particular smaller ones) sticking to the list and not providing supplementary disclosures.

14 Some noted that the list of mandated disclosure should not necessarily be seen as immutable. On the contrary, disclosures made on a voluntary basis by some companies may become 'best practices' over time and may be integrated by the IASB into the minimum list in subsequent revisions to the IFRS Standards.

15 Some users also identified that additional guidance on the application of materiality to disclosures would be useful.

Question for EFRAG TEG

16 Does EFRAG TEG have questions on the summary of the feedback from users presented in this paper?

Feedback from preparers – Larger companies

17 EFRAG collected views from preparers involved in its field test activities, preparers participating in its outreach events as well as preparer members of its advisory working groups.

18 Additional feedback may be expected from EFRAG's public consultation on its draft comment letter and will be shared at the January EFRAG TEG meeting.

19 The main feedback received to date from preparers is summarised below.

20 Like users, preparers generally welcome the inclusion of disclosure objectives as they provide more information on the purpose of the disclosure and the related user needs which is considered helpful to improving disclosure.

21 However, a large majority of preparers noted that the proposals will create operational challenges, involve more subjectivity and require a higher level of judgement which may, in turn, lead to a lack of comparability.

22 Some preparers pointed out that:

(a) Absent a list of mandated disclosures, they would have to develop their own internal lists for operational reasons (e.g., to collect in a structured way information from their subsidiaries in the context of their consolidation process); and

(b) There is a risk that the detailed list of 'non-mandatory' disclosures proposed in the ED may be interpreted and used as a new checklist comprising information that can be omitted only if quantitively immaterial.

23 A majority of preparers marked a clear preference for an approach combining mandated disclosure requirements with the introduction of objectives. Some preparers were however satisfied with the approach proposed in the ED and the 'freedom' by the objective-based approach to disclose more relevant and entity specific information without the necessity to justify why some information contained in the existing standards' checklist is not provided.

24 Many participants considered that additional co-ordination effort with auditors and enforcers may be needed and could result in extra cost. This might include comprehensive discussions with auditors and enforcers, prepare supporting documentation for the auditor and additional audit costs. Some noted that the new proposals actually led to largely unchanged disclosures, and therefore the extra cost would not be justified based on a cost benefits trade of.

25 Some preparers assessed that all the ED's non-mandatory examples of disclosures would need to be included in the reporting packages sent by their subsidiaries and collected centrally before materiality is assessed at group level. Thus, even though information might not be disclosed, entities would need to collect it, resulting in extra cost.

26 A few participants to the field test expected implementation costs to be mainly one-off costs to review and understand the new requirement and to make possible slight changes in systems and processes.

27 Further information about the feedback can be found in the preparer's workshops summary report in paper 08-03.

Question for EFRAG TEG

28 Does EFRAG TEG have questions on the summary of the feedback from preparers presented in this paper (and in more details in paper 08-03)?

Feedback from preparers – Smaller companies

Survey of smaller companies

29 Only one smaller company[1] participated in EFRAG's field testing of the proposals. Further feedback was, however, collected through:

(a) An online survey dedicated to smaller companies (see paper 08-04 for complete results); and

(b) Targeted interviews with a number of auditors of smaller companies.

30 The following feedback was received from smaller-sized entities.

31 EFRAG received 45 survey responses of which 76% were small and medium sized entities applying IFRS. The 45 participants came from eight different jurisdictions with the majority of them from Poland. Therefore, the survey is not meant to provide a statistically valid representation of European preparers' assessments on the ED but to gather insight into views of smaller and medium sized entities about the proposals.

32 Respondents to the survey generally considered that the proposed ED approach would be more beneficial to users than a list of prescriptive requirements. However, some participants to the survey noted that comparability could be lost as subjectivity and more judgement should be applied; they also noted that as a consequence, auditing these disclosures may be more difficult. For that reason, a list of minimum disclosure requirements would be useful, notably to ensure better comparability between companies and to support the process of preparation of the disclosures.

33 Most of the participants considered that the proposed approach would affect the amount of time that it takes to agree and prepare the disclosures on a recurrent basis, including disclosures alignment between entities as well as discussions with auditors. In addition, there would be a need for changes to the disclosure systems, processes, and skills of the involved resources. However, participants' views were split regarding the significance of those changes.

34 The participants considered that the implication of or consequences for satisfying the disclosure objectives under the proposed new approach would be:

(a) additional and extensive dialogue with auditors;

(b) the timing to prepare disclosures has to be changed to apply the necessary judgement and allow sufficient discussion with auditors; and

(c) the additional involvement of management in deciding what to disclose.

35 Participants had different assessments on the overall cost of applying the proposed new requirements compared to applying the existing ones. However, more than half of the participants noted that the most significant would be the combination of one-off implementation costs plus a minor increase in annual costs.

36 The majority of the participants considered that the new approach and requirements were clear. They noted that 'While not mandatory…' made clear that companies need to apply judgement to determine the information to provide.

37 Further information can be found in the survey summary report in paper 08-04

Question for EFRAG TEG

38 Does EFRAG TEG have questions on the summary of the feedback from smaller entities presented in this paper (and in more details in paper 08-04)?

[1] By smaller companies, EFRAG referred to entities with Market cap or total equity below €1bn.

Interviews with auditors of smaller and medium-sized companies using IFRS on expected effects for their audit clients

39 The EFRAG Secretariat conducted targeted interviews with four different audit firms regarding their experience with smaller and medium-sized companies. One additional interview was still being scheduled when finalising this paper.

40 The first part of the interviews specifically discussed the ED's proposals and its consequences for smaller and medium size companies. The second part concentrated on the possible impact of the ED's proposals on the audit of smaller and medium size companies. The third contained specific questions about selected developments in disclosures under IFRS 13 and IAS 19.

41 Most interviewed auditors were of the opinion that a more judgmental approach could be a concern for smaller preparers. They generally considered that:

(a) The capabilities of medium sized and smaller companies are much more restricted than the capabilities of bigger ones.

(b) In addition to lacking resources (personnel and skills) and sometimes motivation, smaller entities in their view would tend to allocate less resources to non-core business areas. Even the medium listed companies often maintained structures in their accounting department that seem to be just sufficient and sometimes even inadequate even inadequate to deal with complex accounting issues or to apply judgement specifically to the extent proposed by the new approach.

(c) Therefore, small and medium listed companies are often interested in disclosing fewer information and being more pragmatic about the disclosures to be provided.

42 Most interviewed auditors saw merits in disclosure objectives to help smaller companies to better focus on material and relevant disclosures and noted that this could also lead to a change in mindset. Most also considered the inclusion of a list of mandated disclosures more appealing as it would give more safety to smaller entities and auditors that important information is not missing.

43 Some auditors opined that a staged approach (rather than a big leap into objectives based only disclosures) would have better chances of successes for smaller and medium size companies.

44 Although the IASB does not in principle required preparers to second guess the users' needed identified in the ED, most interviewed auditors saw problems with the determination of whether users' needs would be adequately met, as smaller companies do not usually have much investor communication and therefore would not benefit from the feedback loop from users on their assessments.

Some expressed the view that proper materiality assessment was the main issue for small and medium preparers. *Expected effects on smaller and medium-sized preparers*

45 Interviewed auditors generally assessed, if the proposed amendments were to be finalised, and due to operational challenges and lack or resources, smaller and medium-sized companies would consider the following possible strategies:

(a) Not presenting fundamentally different disclosures and instead tending to carryover most of their current disclosures with little changes; and/or

(b) Continuing to apply a minimum disclosure requirement approach (for instance by using the list of non-mandatory disclosures in the ED or developing their own checklist based on prior period disclosures or the dummy models of financial statements published by large audit firms…); and/or

(c) Benchmarking other existing disclosures (e.g., those from early adopters) and make slight adjustments.

46 All interviewed auditors stated that the audit might become more complex as they would have to verify that material information is not missing. They commented that the discussion about disclosures and objectives would have to be held by more experienced audit personnel. Some assessed that there will potentially be more discussions with regulators because it will be easier for the regulator to challenge judgement than to challenge missing disclosures only based on materiality considerations.

47 Some expected that the level of complexity of future audits will depend on the quality of the preparer's documentation and most considered the audit documentation to become more difficult due to the audit of the entities' judgements.

48 Some pointed out that they expected more efforts (and cost) from preparers in the beginning, but probably not more in the subsequent phase (when the content of the disclosures is expected to be more stable). Then, in the following years, a checklist approach would be applied.

Question for EFRAG TEG

49 Does EFRAG TEG have questions on the summary of the feedback from the auditors of small and medium-sized entities presented in this paper?

Feedback from auditors (and accounting organisations)

50 The overall auditors' perspective was considered through:

(a) The consultation of EFRAG's various working groups which include members with audit background (User Panel, Financial Instrument Working Group, Insurance Accounting Working Group, Pension Plan Advisory Panel);

(b) A workshop dedicated to discussing the results of the field text with a number of members of EFRAG's advisory groups with an audit background;

(c) Interviews with auditors of smaller entities (see section above); and

(d) Discussions with accounting organisations and large audit firms.

51 Additional feedback may be expected from EFRAG's public consultation on its draft comment letter and will be shared at the January EFRAG TEG meeting.

52 The main feedback provided by auditors and accounting organisations is summarised below.

53 While generally acknowledging that the proposed overall and specific objectives and the accompanying explanations on users' needs were useful, auditors generally preferred maintaining a list of prescriptive specific disclosure requirements (minimum disclosures).

54 They first observed that mandating a minimum list of specific items of disclosures was not just a concern for auditors' work but also and importantly for preparers themselves from operational and efficiency standpoints, as preparers needed internal checklists to gather information internally in a structured way (e.g., consolidation instructions to subsidiaries …). For consistency of information provided, it was preferable that the list of disclosures is established by the standard setter than left to the preparers.

55 Including a minimum list of specific disclosures will provide a better basis for auditability and enforceability in case a piece of information is not disclosed.

56 Some suggested that the standards should focus on some 'core' disclosures to mandate to ensure a minimum level of standardisation and comparability. Beyond that, the application of materiality judgements and the consideration of disclosure objectives would help identify additional entity specific disclosures.

57 Some noted the example of IFRS 16 *Leases* which includes:

(a) a disclosure objective intended to prompt lessees to assess whether the overall quality and informational value of its lease disclosures are sufficient to meet the stated objective or if any additional information is needed; and

(b) additional guidance about user information needs that any additional disclosures should address.

58 Some suggested that it would be more effective to develop guidance aiming at helping entities make materiality judgements on disclosures rather than change the existing requirements.

Question for EFRAG TEG

59 Does EFRAG TEG have questions on the summary of the feedback from the auditors presented in this paper?

Feedback from regulators and enforcers.

60 EFRAG received indications that ESMA would submit a comment letter in response to the IASB's and to EFRAG's consultations, respectively, in early January 2022. The EFRAG Secretariat expects to be able to share that input at the January TEG meeting.

61 Five companies involved in the field test have agreed that their input (mock disclosures and/or questionnaires) is shared with ESMA for comments after consulting with the National Competent Authorities of the concerned countries. At the time of this paper, we understand that the review is under way.

Part 2 - Application of the approach to the tested Standards

Application of the proposed approach to IAS 19

Feedback from Users

62 Users did not generally take issues with the proposed overall and specific objectives for defined benefit plans. Regarding defined benefit plans items of information, users generally considered that:

(a) Information about sensitivity analysis is useful (in particular on relevant assumptions such as the discount rate, longevity/ mortality, or the expected asset return assumptions) and should be retained as mandatory. Information about assumptions used is useful but not sufficient as it does not allow users to assess the quantitative impacts of changed assumptions.

(b) Information about expected return on assets should not be limited to past returns but also encompass expected future returns and potential gaps with the obligation. Sensitivity analysis on expected future returns would provide very useful information.

(c) Information about the entity's cash flows (into the plan or to the pensioners) was helpful. This is particularly true for credit analysts.

63 Some users assessed information about alternative actual assumptions, changes in these assumptions and the entity's approach to determining the assumptions used as useful items of information.

64 However, others were reluctant to have to 'second guess' on how assumptions are arrived at and noted that such requirements did not existing in other IFRS Standards for critical areas of judgment (e.g., no equivalent disclosures are required on how the expected lives of tangible or intangible assets are determined).

65 Some users considered the executive summary of defined benefit plans to be useful as it would allow them to have an overview on what had happened on major items.

Feedback from preparers – Larger companies

Defined Benefits Plans

66 Preparers in the field test generally considered that the overall and specific objectives were understandable and useful.

67 Preparers also assessed that:

(a) Sensitivity analyses were useful and the most effective way of disclosing measurement uncertainty. Some preparers failed to identify alternative ways to communicate on measurement uncertainties.

(b) Information about expected rate of return on assets may be useful but would be difficult to obtain in some cases as would require forward looking assessment about future performance,

(c) the proposed non-mandatory item of information *"Alternative actuarial assumptions reasonably possible at the end of the reporting period that could have significantly changed the defined benefit obligation"* was not useful since the measurement of the pension was usually made by valuation specialists. Such reasonable alternative assumptions would raise questions about the valuation and not add to the usefulness of information.

(d) Specific disclosure objective on future payments to members of defined benefit plans that are closed to new members was not useful even if the information could give an idea of measurement uncertainty. One of the participants opined that closed plans have less volatile cash flows and would include this provision as a non-mandatory item of information instead of a specific disclosure requirement.

Defined Contribution Plans

68 Regarding Defined Contribution plans, preparers in EFRAG's working groups reiterated their previously expressed view that some plans may include more complexity than the ED envisages. An example mentioned was the situation of DC plans which benefits are based on the average salaries paid by an entity and therefore future payments may vary over time (if an entity decides to change the profile of its employees, the DC contributions would be non-linear). On these plans, one fieldwork participant suggested including more comprehensive disclosures on this type of plans as well as its legal and regulatory features

69 Some members suggested to leave the question of hybrid plans out of EFRAG's comment letter as this was primarily a matter of definition, recognition and measurement before being a disclosure matter. It was noted that hybrid plans are generally classified as Defined Benefits rather than Defined Contribution plans as mentioned in EFRAG's draft comment letter.

Feedback from preparers – Smaller companies

70 The following feedback was received from the survey from smaller and medium-sized entities:

(a) Entities generally agreed that all the relevant specific disclosure objectives related to defined benefit plans are identified in the ED. In addition, the majority of the participants agreed that an overall disclosure objective was sufficient information to cover the main risks related to defined contribution plans, but there were also some participants that were unsure about hybrid pension plans.

(b) Participants in the survey assessed that the sensitivity analysis should not be required since the benefits do not outweigh the cost in their circumstances.

(c) Participants also agreed that the information about future outflows of defined benefit obligations is more important to users than detailed sensitivity analysis.

71 In addition, auditors of smaller and medium sized entities did not provide many remarks on IAS 19 proposals. One of them considered disclosures on future cash flows to be extremely helpful to users. This auditor also noted that an overall objective on DC plans ("…*enables users of financial statements to understand the effect of defined contribution plans*…") may be enough as these plans do not usually have many uncertainties.

Feedback from auditors and actuaries

72 Auditor and actuaries generally considered that sensitivity analyses are important and should be regarded as mandatory, especially for significant assumptions.

73 Participants did not find useful to provide expected future cash flow effects on funded pension plans.

74 Information on future cash flows and contributions is deemed to be useful at least in some cases. However, it may not always be easy to obtain that information (in particular in the case of insured plans where the entity only knows the amount of premiums it will have to pay for the next period).

75 In the participants' view there was some confusion between cash flows affecting the entity's own cash flows and payments to the beneficiaries of pension plans. Therefore, it is important for preparers to differentiate cases where an entity

obligation is only to contribute to a pension plan to cases where the entity directly pays benefit to the pensioners.

76 With regard to plans closed to new members, participants noted that the proposed disclosures were not assessed to be very useful requirement and that it would depend on materiality requirements. It could be moved from a mandatory to a non-mandatory disclosure requirement.

77 Participants had mixed views about the executive summary. On one hand they liked the idea but on the other hand, they acknowledged that the total text would be even longer than usual.

78 Regarding how to determine actuarial assumptions, participants considered that this non-mandatory item of information could be useful, especially for assumptions like discount rates, inflation or longevity.

79 Participants did not consider that there was a need for specific disclosure objectives on DBP that are lump sum payments. On hybrid plans, one participant noted that it was a different topic and that these pension plans are defined benefit plans. Therefore, all the defined benefit plan requirements would apply to hybrid plans.

Question for EFRAG TEG

80 Does EFRAG TEG have questions on the summary of the feedback relating to the IAS 19 Amendments?

Application of the proposed approach to IFRS 13

Feedback from Users

81 Some users assessed that sensitivity analyses provided useful information and allowed comparison across companies. Alternative fair value measurements could be useful, but the granularity of the information should be set at an appropriate level to be understandable and useful.

82 Some users noted the importance for users of the requirements in the ED to provide a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the Level 3 fair value measurements. Some users suggested such reconciliations should be required for Level 2 measurements as well although this may create a burden for preparers. From a user point of view, a full reconciliation would be beneficial.

Feedback from preparers – Larger companies

83 Preparers in the field test generally considered that the overall and specific objectives assigned to IFRS 13 were understandable and useful.

84 Some participants in the field test did not disclose additional information for Level 2 and anticipated difficulties if reasonably possible alternative fair value measurement or sensitivity analyses were also to be required for L2 measurements.

85 Some participants (financial institutions) stated that their current calculations of Level 3 sensitivities (based on significant unobservable inputs) were a highly manual process. If the information were to be required also for L2 assets and liabilities, there would be many challenges given the size of its population and the reporting processes would have to be changed which would trigger costs.

86 Participants in the field test did not generally identify many changes in the level of details provided on IFRS 13 disclosures.

Feedback from preparers – Smaller companies

87 The following feedback was provided by smaller and medium sized entities in the survey

(a) Participants generally agreed that all the relevant specific disclosure objectives related to assets/liabilities measured at fair value (FV) and assets/liabilities not measured at FV but for which FV is disclosed are identified in the ED.

(b) Participants were sceptic in regard to alternative fair value measurement and did not believe that providing alternative FV was promoting a reasonable cost/benefit trade-off when compared to the sensitivity analysis. Some of the participants noted that the resulting information would not be useful and/or understandable. For them, the sensitivity analysis is more meaningful.

88 In addition, interviews with auditors of smaller and medium sized entities provided the following input:

(a) Some perceived alternative fair value measurements to be useful.

(b) One respondent mentioned the reduced usefulness of sensitivity analysis in practice under standard status quo, when key inputs and their changes would not be disclosed.

(c) One respondent did not saw a risk in the audit of alternative fair value measurements as auditors themselves audit using a reasonable/acceptable range of fair values, so the reasonable range for disclosure purpose should be within the acceptable range of the auditor.

(d) One respondent agreed with the requirement for more disclosures on Level 2 depending on the scenario. There would be no need for more information about plain derivatives contrary to fair value investment property that is valued at fair value.

Feedback from interview of auditors of smaller and medium-sized companies

89 Some auditors agreed that, in general, a holistic sensitivity analysis combining different assumptions was more meaningful unless one specific assumption was driving most of the fair value changes. One auditor however reported concerns in his jurisdiction about having to present a range of alternative fair values which would place doubts about the numbers relating to fair value reported in financial statements.

90 Some considered that the IASB could better clarify the distinction and respective objectives between alternative fair value measurement and sensitivity analyses in its proposals.

91 Some auditors noted challenges regarding the level granularity of the information to disclose. The more granular the information the more useful it is but if it is too granular, the amounts then may become immaterial. Focusing on changes to the fair value as whole (rather than the components of this change) was the right approach for some.

92 There were mixed views as to whether disclosures about measurement uncertainties should be limited to L3 instruments:

(a) Some considered that the issue was about reporting on measurement uncertainties linked to any unobservable inputs and this could concern assets and liabilities beyond those classified beyond Level 3. It was noted that while uncertainty may not be material at an individual L2 instrument level, the size of the L2 portfolio may meant that as a whole, the unobservable inputs would create a significant measurement of uncertainty.

(b) Others considered that Level 2 instruments, taken as a whole were not expected to be subject to high levels of uncertainty by definition: if the classification between level 2 and 3 instruments is done appropriately then limited sensitivity analyses to Level 3 instruments would make sense.

93 Some noted that absent an assessment of the probability of the alternative assumptions to come into play the information about alternative fair values would be less useful. A parallel was drawn with IFRS 9 requiring preparers to use multiple scenarios to produce probability-weighted lifetime expected credit losses.

94 One auditor also noted that measurement uncertainly did not arise only from the unobservable input used in a model but by the model used itself.

95 Lastly, one auditor stated that in his view disclosures about assets and liabilities that were not carried at fair value were not particularly useful in the case of non-financial entities.

Question for EFRAG TEG

96 Does EFRAG TEG have questions on the summary of the feedback relating to the IFRS 13 Amendments?

Part 3 - Possible approach to EFRAG's final comment letter

Overall approach

Reminder of the tentative views expressed in EFRAG's Draft Comment Letter

97 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 with a closer involvement of users of financial statements and other stakeholders at early stages in the standard-setting process.

98 EFRAG however noted that the proposed approach introduces a radical change from the existing guidance by making minimum requirements an exception. EFRAG expressed concerned that, absent a list of minimum disclosure requirements, the proposed approach would expose preparers to challenges, make review of such disclosures and enforcement of the requirements more difficult for auditors and regulators and may ultimately not lead to the intended changes and improvement to information relevance.

99 Therefore, EFRAG concluded that the success of the proposed objectives-approach depended on the IASB striking the correct balance between a tier of disclosures that are always required (that ensure a minimum level of comparability), and objectives to elicit additional entity-specific disclosure.

100 EFRAG also noted the IASB's proposal to develop 'non-mandatory' examples of information to meet each specific disclosure objective. EFRAG questioned the likely effectiveness of such non-mandatory information and recommends that the IASB investigates further the effective applicability of such non-mandatory information.

101 EFRAG recommended that the IASB provided further guidance on the application of the concept of materiality and its interactions with objectives-based disclosures.

102 Lastly, EFRAG assessed 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, which is likely to persist for each reporting period.

Possible approach for EFRAG's final comment letter

103 The EFRAG Secretariat observes that the majority of stakeholders involved in its outreach activities shared the tentative views expressed in EFRAG's draft comment letter that:

(a) Introducing overall and specific objectives is useful to explain why disclosures are required and how they are used by users in making their assessments and decisions; but

(b) There is a need to maintain a list of mandated disclosures.

104 The disclosure objectives may ensure that additional material and entity-specific information is disclosed in the notes.

105 Feedback received also pointed out to the need to provide additional guidance to help entities make materiality judgements when applied to disclosures.

106 Stakeholders expressed a range of views on the ED proposals with a few supporting the proposals overall, but many more expressed significant concerns about one or more of the consequences of removing mandatory disclosure.

107 Based on this, and subject to the consideration of the comment letters to be received in response to EFRAG's DCL, one possible way forward could consist in:

(a) Reiterating the view expressed in EFRAG's DCL in favour of an alternative approach incorporating elements of the objectives-based regime described in the ED, but also retain specific mandatory disclosures.

(b) Reiterating support for the proposed rigorous methodology for the IASB to define objective-based disclosure requirements, with the same level of rigour and scrutiny as requirements for recognition and measurement.

(c) Supporting the steps described in the ED for the IASB to develop overall and specific disclosure requirements (including reaching out early to users to understand their information needs and how they are likely to use the information provided and performing costs and benefits analyses).

(d) Supplementing the current proposed approach in the ED with a list of disclosures which are mandatory for the respective standard; entities would omit information in the list if not material in their specific circumstance. These disclosure requirements should relate to the information that users of financial statements have identified as being most useful to their analyses. Providing them should be sufficient to meet the disclosure requirements in most 'simple' circumstances and would allow to preserve comparability.

(e) The mandatory disclosures should focus on what should be disclosed, rather than how it should be disclosed and provide companies the freedom to use judgement when combining information disclosed under the mandatory rules with additional information, when they provide additional entity-specific information to meet the objectives.

108 The IASB could include additional examples illustrating how each objective could be met and explain in which circumstances these examples could be used. Providing additional examples (in addition to the mandated list) have the merit of assisting companies, regulators and auditors to gain a common understanding of what level of disclosure the IASB considers to be "good enough" to meet user needs in various circumstances.

109 Small and medium size preparers may find the mandatory disclosures adequate for simpler areas of their financial statements but provide additional information based on the disclosure objectives in key areas of the financial statements. Larger companies with more complex accounting issues would likely need to supplement

the mandatory disclosures with additional information to meet the objectives in many areas of the financial statements.

110 This could have the merit of keeping the preparer and audit burden in a way that is proportionate with the complexity of the financial statements, while introducing all preparers to the concept of an objective based approach and allowing them to develop practices in this area.

111 A good example to look at combining the setting of mandated disclosures with catch all objectives may be found in IFRS 16 which:

(a) Include an overall disclosure objective;

(b) Require a lessee to disclose a number of specific information (about its right-of-use assets, and expenses and cash flows related to leases etc…);

(c) Require a lessee to disclose any additional information that is necessary in its specific circumstances to satisfy the overall disclosure objective; and

(d) Supplements this requirement with a list of user information needs that any additional disclosures should address.

(e) Contains a number of additional (non-mandatory) illustrative examples.

112 The EFRAG Secretariat also considers, in view of the feedback it received from its outreach activities that the drafting of a standard should explicitly emphasise the materiality rules of IAS 1 and the need to apply judgement.

Application of materiality to disclosures

113 The EFRAG Secretariat notes that the IASB has refrained from including explicit references to the need to apply materiality judgements in the proposed changes to IFRS 13 and IAS 19. As explained in the Drafting Guidance (paragraph DG4):

The Board will, 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. Multiple or duplicate references to materiality can introduce confusion about how the concept applies to a Standard in which it is not mentioned.

114 The above statement may be problematic insofar as the new guidance states (DG1) that it '*To comply with those objectives, entities would be required to disclose <u>all material information</u> needed to meet the detailed user information needs'*.

115 However, the proposed amendments to IFRS 13 and IAS 19 do not contain that 'all material information' language. They only refer to '*information that allow users to understand…*'

116 We believe that this discrepancy between the drafting guidance and its application to the two tested standards may create confusion. The EFRAG Secretariat has heard that absent a list of mandated disclosures, and further guidance on the application of materiality it might be difficult for preparers to identify all the possible universe of 'material' information' that may contribute to meeting a stated disclosure objective.

117 Although the IASB may consider that the disclosure objectives 'implicitly' require that all material information needs to be provided, this could, in our view, be made clearer by an explicit statement about materiality within the disclosure requirements and additional guidance on the application of materiality judgements to disclosures.

Proposed Amendments to IAS 19 and IFRS 13

118 The EFRAG Secretariat's suggestion that the IASB should consider maintaining a list of mandated disclosures, would imply that EFRAG does not support the finalisation of the proposed amendments to IAS 19 and IFRS 13 as proposed.

119 This is because it will not be appropriate to support the proposed amendments to IFRS13 and IAS 19 without first understanding if a different drafting guidance (combining objectives and mandated disclosures) will be adopted for other standards).

120 If the same methodology is not used elsewhere, it will lead to inconsistent application of the principles for disclosures within IFRS, exacerbating the risk of confusing preparers and users and resulting in inconsistent application.

121 Should however the IASB decide to proceed with the ED proposals regarding the two Standards we recommend that the IASB considers the feedback received by EFRAG as summarised in the following paragraphs.

IFRS 13

Additional considerations on the proposed changes to IFRS 13

122 In its draft comment letter EFRAG generally agreed with the proposed overall and specific objectives. However,

(a) EFRAG considered sensitivity disclosures as more pertinent than the proposed objective to help users understand reasonably possible alternative fair values and suggests continuing to require such disclosures.

(b) EFRAG noted that users may find information about alternative fair value measurements useful but that this proposal (which would go beyond the level 3 instruments) would vastly extend the population for which similar information is currently provided. Currently, level 3 items are the smallest group in the fair value hierarchy while level 2 items are the vast majority in several industries, mainly financial institutions. Requiring such disclosures for this population would therefore increase the burden on preparers significant.

Therefore, EFRAG expressed concerns about the trade-off between costs and benefits for this specific objective, as the proposal refers to all items that are fair valued on a recurring basis with no distinction between the levels in the fair value hierarchy.

Possible approach for EFRAG's final comment letter

123 The field test has provided evidence of the lack of clarity of the requirement to provide information to help users understand possible alternative fair values using reasonably possible assumptions as of the balance sheet date. Several preparers have considered that in their specific circumstances, sensitivity analyses were the better way to provide information about measurement uncertainties.

124 Some requested or expressed concern on which basis alternative fair values should be reported. In many cases, conceptually fair value represented a best estimate and this could come at odds with the concept of alternative fair value measurements. Reporting alternative fair values or a range of them could affect the reliance basis for reporting.

125 Based on the above, the EFRAG Secretariat tentatively suggests that the final comment letter could reiterate the concerns expressed in the DCL concerns about replacing the existing requirement to provide sensitivity analyses with an objective to provide information about alternative fair value measurement. It could also be noted that entities that may want to present information about alternatives fair value

measurements to meet the disclosure objective about 'measurement uncertainties' would not be prevented to do so on a voluntary basis. Information about alternative fair value measurements may be introduced in the examples of non-mandatory disclosures.

126 Finally, the EFRAG Secretariat has not received clear indications from its field test as to whether the absence of reference in the ED's provisions to particular levels of the fair value hierarchy was problematic. As indicate above, some financial institutions in the field test and some auditors questioned the usefulness of disclosures on alternative fair value measurement for Level 2 measurements whereas users were more favourable.

127 The EFRAG Secretariat does not make a specific recommendation as to the drafting of the final comment letter on the matter pending the review of the comments letters that will be received in response to EFRAG's DCL.

IAS 19

128 If the IASB was to finalise the proposed amendments to IAS 19, the EFRAG Secretariat suggests, based on the feedback received, to reiterate the recommendations made in EFRAG's DCL that the IASB should:

(a) Include Sensitivity analyses in the list of disclosures that are always required to meet the stated disclosure objectives about measurement uncertainties of DB plans.

(b) Expand the guidance on DC pension plans to address plans with more complex features. However, the reference to hybrid plans contained in paragraphs 178 and 220 of EFRAG's DCL would be removed.

(c) Reiterate support for a specific disclosure objective on expected future cash flows relating to DB plans while acknowledging that the relevance of this information depends on the specific situations and characteristics of the pension plans. However, we will suggest that the IASB should clarify that disclosed information on future cash flows could include whether an entity obligation is only to contribute to a pension plan or whether the entity directly pays to the pensioners.

(d) Retain the requirements included in paragraphs 147F (DBP amounts recognised in the primary financial statements and their components) and 147V (quantitative reconciliation) as mandatory.

(e) Retain the reference to the slight difference between the existing disclosure requirement on significant actuarial assumptions and the proposed specific disclosure objective on significant actuarial assumptions (paragraph 195 of the DCL). We will also reiterate EFRAG's concern that preparers will simply disclose the main assumptions

129 Several stakeholders questioned the specific disclosure objective on future payments to members of defined benefit plans that are closed to new members. A few of them wondered why defined benefit plans that are closed to new members are singled out. A few suggested to place less emphasis on this disclosure by making it non-mandatory.

130 Based on the feedback received, we suggest that the IASB remove this specific disclosure objective and include the non-mandatory items of information that would satisfy this objective as items of information that might satisfy the specific disclosure objective on expected future cash flows. This would be aligned with existing IAS 19 which requires entities to disclose information about the maturity profile of the defined benefit obligation as an indication of the effect of the defined benefit plan on the entity's future cash flows.

131 EFRAG in its DCL observed that the ED refers broadly to the 'nature' of the benefits or the risks without defining the term and expressed the concern that, if not tailored more narrowly, the ED may not improve the lengthy narrative information about DBP currently provided by some entities. In EFRAG Secretariat's view, we have not received as much feedback on this issue as on the issues previously discussed. Thus, we suggest analysing the comment letters from constituents before deciding whether we should reiterate, edit or remove this comment.

Transition requirements

132 EFRAG also considered in its DCL (although this was not in the IASB's consultation questions) that transition requirements should be further investigated,

(a) if the proposals were to be finalised by the IASB considering the extend of changes involved and the burden for preparers that would arise from the new disclosure requirements.

(b) EFRAG also suggested that the IASB could clarify whether, where the assessment of the disclosure objectives leads to new disclosures being provided, comparative information should always be provided in the financial statements.

133 Some field test and workshop participants shared EFRAG's tentative view that further clarity should be provided and that enough time should be given to preparers to transition to the new requirements if the proposals in the ED were to be finalised.

134 The EFRAG Secretariat suggests reiterating these views in EFRAG's final comment letter.

Questions for EFRAG TEG

135 Does EFRAG TEG support the tentative approach suggested by the EFRAG Secretariat for the final comment letter (subject to the feedback from the DCL consultation confirming emerging messages from the outreach)? If not, which alternative approach would you suggest?

136 Are there other statements in EFRAG's DCL that EFRAG TEG would like to reassess or modify based on the outreach result?

137 Is EFRAG TEG satisfied with the outreach and field test activities conducted by the EFRAG Secretariat or do you suggest any additional activities before the final comment letter is issued?