EFRAG

European Financial Reporting Advisory Group

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Disclosure Requirements in IFRS Standards – A Pilot Approach
Overview

Objective

1 The objective of this paper is to receive (first) input from the EFRAG User Panel on the IASB's Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot* (the ED) to recommend a draft comment letter by EFRAG TEG to EFRAG Board.

Background

2 The IASB published Disclosure Requirements in IFRS Standards—A Pilot Approach ('the ED') on 25 March 2021. The ED proposes a new approach ('the proposed guidance') to use by the IASB when it is developing and drafting disclosure requirements in IFRS Standards. Disclosure requirements developed applying the proposed guidance would require companies to comply with disclosure objectives and apply judgement to decide what to disclose, instead of applying disclosure requirements like a checklist.

3 Under the proposals the IASB would

(a) Require entities to comply with **overall disclosure objectives** that describe the overall information needs of users of financial statements. To comply with those objectives, entities would be required to assess whether information provided in the notes is sufficient to meet the overall user information needs.

(b) Require entities to comply with **specific disclosure objectives** that describe the detailed information needs of users of financial statements. To comply with those objectives, entities would be required to disclose all material information needed to meet the detailed user information needs. Specific disclosure objectives would be supplemented with explanations about what users of financial statements want to do with information provided to meet the objective. These explanations are meant to help entities better understand why information is useful and determine how best to meet that need in their own case.

(c) Identify **items of information to meet each specific disclosure objective**. Entities would need to apply judgement to determine the information they should disclose to satisfy the specific disclosure objective.

4 The IASB would require entities to provide specific items of information only when it has determined that those items of information are essential to meet the specific disclosure objective. Otherwise, and in most cases, the IASB would only identify possible specific items of information to meet the objectives but will not mandate their disclosure. Instead, those items of information are considered examples of what entities may disclose to meet the specific disclosure objective.

5 Therefore, the ED typically:

(a) uses prescriptive language ('an entity shall'…) to require an entity to comply with the disclosure objectives (both overall and specific).

(b) uses less prescriptive language ("while not mandatory, the following information may enable…') when referring to possible items of information to meet specific disclosure objectives with few exceptions.

6 This approach is intended to shift the focus from applying disclosure requirements like a checklist to determining whether disclosure objectives have been satisfied in the entity's own circumstances. That might have impact on relevance and comparability. Three IASB Board members (Alternative view of Mr Martin Edelmann, Mr Zachary Gast and Ms Suzanne Lloyd, see Basis for Conclusion) did not agree with the proposals. Their arguments were related to

(a) increase of enforcement challenges;

(b) being more burdensome for preparers of financial statements and increase reliance on materiality judgements; and

(c) impairment of comparability for users of financial statements by introducing a more flexible approach to disclosures.

7 The IASB applied the proposed Guidance by applying it to the disclosure requirement of two standards (IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*). The ED proposes to replace the disclosure requirements in IFRS 13 and IAS 19 with a new set of disclosure requirements developed applying the proposed Guidance with two objectives:

(a) to improve the usefulness of disclosures in financial statements prepared applying the test Standards, and

(b) to test and improve the proposed Guidance.

8 Because the proposals the ED imply a significant change in approach, guidance and mindset, intended to shift the focus from applying disclosure requirements like a checklist to exercising judgement in determining whether disclosure objectives have been satisfied in the entity's own circumstances.

9 While IFRS 13 will still include several specific disclosure requirements such specific disclosure requirements are only intended in for defined benefit plans in IAS 19. The IASB concluded that defined contribution plans or employee benefits will unlikely significantly affect a company's financial position. In relation to termination benefits and to other employee benefits the IASB is of the view that these plans can vary widely in nature and significantly affect all of the primary financial statements.

10 EFRAG has also considered the inputs received from its consultation on the IASB's Post-implementation Review (PIR) of IFRS 13 on 2017.

Comparison with the current requirements in IFRS 13

Overall objective - Comparison with the disclosure objective in IFRS 13

11 IFRS 13 contains an overall objective that requires an entity to disclose information that helps users of its financial statements assess both of the following:

12 For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements; and

13 For fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

14 IFRS 13 does not contain specific disclosure objectives but prescribes a minimum list of disclosures to meet the general objectives. A comparison of existing and proposed requirements is presented in below.

Specific disclosure objectives - Comparison with the disclosure objective in IFRS 13

15 The table below provides a high-level comparison between the current minimum list of disclosure requirements in IFRS 13 with the proposals in the ED.

	Current IFRS 13	**ED revising IFRS 13 (with ref to paragraph number)**	
	Required	*Required*	*Considered in meeting objective*
FV measurement at the end of the reporting period	✓	✓ (§ 105)	
Reasons for the non-recurring FV measurements	✓		
The level of the FV hierarchy (Level 1, Level 2 or Level 3)	✓	✓ (§105)	
Description of nature, risks and other characteristics of the classes of assets and liabilities in each level of the FV hierarchy			✓ (§106 a)
Amounts of any transfers between Level 1 and Level 2, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred. (only for recurring)	✓		✓ (§117 b and c)
Description of the valuation technique(s) and the inputs used in the FV measurement (Level 2 and Level 3). If there is a change in the valuation technique, the change and the reasons.	NA		✓ (§110 a, b, c)
Quantitative information about the significant unobservable inputs used in the fair value measurement (Level 3)	✓		• (also suggest narrative information) (§110 c)
Reconciliation from the opening balances to the closing balances, disclosing separately the impacts (Level 3) (only for recurring)	✓	✓ (§116) **Note 2**	
Explanation of the significant reasons for changes in recurring FV measurements other than those of Level 3	NA		✓ (§117 a)
Amounts of any transfers into or out of Level 3, (only for recurring FV)	✓		✓ (§117 b)
The reasons and the entity's policy for determining when transfers between levels are deemed to have occurred.	✓		✓ (§117 c)
Description of the valuation processes used by the entity (Level 3)	✓		**Note 1**
Narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs (Level 3) (only for recurring)	✓		(§113 a) **Note 1**
Description of interrelationships between alternative inputs and inputs used in the FV measurement and	✓		✓ (§113 d)

	Current IFRS 13	ED revising IFRS 13 (with ref to paragraph number)	
how magnify or mitigate the effect of alternative inputs in the FV			
Effect of a change to reflect a reasonably possible alternative assumption was calculated (Level 3) (only for recurring)	✓		✓ (§113 b and c) **Note 2**
Fact and reason of the non-financial asset is being used in a manner that differs from its highest and best use	✓		✓ (§110 d)
If it is made the accounting policy choice to use the exception. In paragraph 48 of IFRS 13, it shall disclose it.	✓		✓ (§109)
Asset/liability not recognised at FV but for which FV is disclosed - level of the FV hierarchy	✓	✓ (§120)	
Asset/liability not recognised at FV but for which FV is disclosed - Description of the valuation technique(s) and the inputs used in the FV measurement (Level 2 and Level 3). If there is a change in the valuation technique, the change and the reasons.	✓		
Asset/liability not recognised at FV but for which FV is disclosed – Description of nature, risks and other characteristics of the classes of assets and liabilities not measured at FV but for which FV is disclosed.	NA		✓ (§121)
Asset/liability not recognised at FV but for which FV is disclosed - Fact and reason of the non-financial asset is being used in a manner that differs from its highest and best use	✓		
For a liability measured at FV an issued with a third party credit enhancement, existence of the credit enhancement and whether it is reflected in the FV.	✓		✓ (§106 b)

Note 1: Information about valuation process: The basis for conclusion explains that the IASB considered whether information about valuation processes would help an entity to comply with the specific disclosure objectives relating to fair value measurement. However, users of financial statements said that other information would be more useful in meeting their needs. Consequently, the IASB proposes to remove Illustrative Example 18, which illustrates the requirement in paragraph 93(g) of IFRS 13 for a description of the valuation processes used by the entity.

Note 2: The proposals in the ED no longer refer to 'sensitivity analysis but rather directly to 'measurement uncertainty' and to 'possible range of fair value measurements' at the end of the reporting period. The IASB explains in the Basis for Conclusion to the ED that they used such language because they observed that the underlying needs of users of financial statements relate to understanding measurement uncertainty. Users of financial statements told the IASB that information about the overall possible range of fair value measurements at the end of the reporting period is more useful to their analyses than detailed sensitivity information. Consequently, the IASB focused the specific disclosure objective on the range of reasonably possible fair values.

Note 3: The ED does not require entities to provide a reconciliation that includes a line item for every reason for changes in the amount of fair value measurements. The IASB decided that the reconciliation should highlight the significant reasons for changes in fair value measurements and aggregate other items.

Comparison with the current requirements in IAS 19

Overall objective - Comparison with the disclosure objective in IAS 19

16 IAS 19 does not distinguish between overall and specific objectives and requires that entities:

(a) explain the characteristics of its defined benefit plans and risks associated with them.

(b) identify and explains the amounts in its financial statements arising from its defined benefit plans; and

(c) describe how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

17 To meet these objectives, the entity shall consider the level of detail necessary to satisfy the disclosure requirements, how much emphasis to place on each of the various requirements, how much aggregation or disaggregation to undertake and whether users of financial statements need additional information.

18 The premises and features that IAS 19 provides in paragraph 138 for aggregating and disaggregating information are very similar to those that the ED includes.

19 IAS 19 prescribes a minimum list of disclosures to meet the overall objectives. A comparison of existing and proposed requirements is presented below.

Specific disclosure objectives - Comparison with the disclosure objective in IAS 19

20 The table below provides a high-level comparison between the current minimum list of disclosure requirements in IAS 19 with the proposals in the ED.

	Current IAS 19	**ED revision of IAS 19 (with ref to paragraph number)**	
	Required	*Required*	*Considered in meeting objective*
Defined benefit plans			
The amount of the defined benefit cost included in the statement of profit or loss, identifying its components, including current service cost, past service cost, gain or loss on settlement, and net interest on the net defined benefit liability.			• (§147F a)
The amount of the defined benefit cost in the statement presenting comprehensive income, identifying its components, including actuarial gains and losses and return on plan assets excluding amounts included in (a);			• (§147F b)
The amount of the net defined benefit liability (asset) in the statement of financial position, identifying its components, including fair value of the plan assets, present value of the defined benefit obligation, and the effect of the asset ceiling;			• (§147F c)
The deferred tax asset or liability arising from the defined benefit plans.			• (§147F d)
The amounts in the statement of cash flows, identifying their components, including contributions by the entity into the defined benefit plans.			• (§147F e)
Information about the nature of the benefits, (IAS19 - 139 a)	✓	✓ (§147G a)	

	Current IAS 19	**ED revision of IAS 19 (with ref to paragraph number)**	
A description of the regulatory framework in which the plan operates and any other entity's responsibilities for the governance of the plan (IAS19 -139 a) ii) and iii))	✓		• (§147I d)
A description of the risks to which the plan exposes the entity (IAS19 -139 b)	✓	✓ (§147G b and c)	
A description of any plan amendments, curtailments and settlements (IAS19 -139 c)	✓		• (§147I c)
A description of the nature of the benefits provided by the plans			• (§147I a)
The status of the defined benefit plans, such as whether the plans are open or closed to new members.			✓ (§147I b))
A description of plan-specific investment risks, including significant concentrations of risks			✓ (§147I e))
A description of the policies and processes used by the entity, or the trustees or managers of the plans, to manage the identified risks.			✓ (§147I f))
The expected return on plan assets			✓ (§147I i)
Reconciliation for the net defined benefit liability (asset) separating the plan assets, the PV of the obligation and the effect of the asset ceiling (IAS19 - 140 a))	✓	✓ (§147V) **Note 1**	
Reconciliation for any reimbursement rights, describing the relationship between any reimbursement right and the related obligation (IAS19 - 140 b))	✓		✓ (§147W)
Reconciliation of par. 140 shall show the current service cost, interest income or expense, remeasurements of the net liability (asset), past service cost and gain and losses from settlements... (IAS19 - 141)	✓		• (§147V) **Note 2**
Disaggregation the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not. (IAS19 - 142)	✓		• (§147I h)
The fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity. (IAS19 - 143)	✓		• (§147I h)
Significant actuarial assumptions used to determine the present value of the defined benefit obligation. If an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges. (IAS19 - 144)	✓		
Significant demographic and financial actuarial assumptions used to determine the defined benefit obligation.			• (§147S a)
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.			• (§147S b)

	Current IAS 19	ED revision of IAS 19 (with ref to paragraph number)	
Reasons why actuarial assumptions significantly changed during the reporting period.			• (§147S c)
Alternative actuarial assumptions reasonably possible at the end of the reporting period that could have significantly changed the defined benefit obligation			• (§147S d)
A description of how measurement uncertainty has affected measurement of the defined benefit obligation.			• (§147S e)
A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period. (IAS19 - 145 a)	✓		
The methods and assumptions used in preparing the sensitivity analyses and the limitations of those methods. (IAS19 - 145 b)	✓		
Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes. (IAS19 - 145 c)	✓		
Description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk. (IAS19 - 146)	✓		• (§147I g)
A description of any funding arrangements and funding policy that affect future contributions. (IAS19 - 147 a))	✓		• (§147L a)
A description of any expected contributions to the plan for the next annual reporting period. (IAS19 - 147 b))	✓		
Quantitative information about expected future contributions to meet the defined benefit obligation recognised at the end of the reporting period.			• (§147L b)
A description of regulatory or other agreements that affect expected future contributions.			• (§147L c)
Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments. (IAS19 - 147 c))	✓		• (§147P)
Information about the expected pattern or rate of expected future contributions.			• (§147L d)
Defined benefit plans – Multi-employer plans (accounted for as defined contribution) Note 3			
Description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements. (IAS19 - 148 a)	✓		
A description of the stated policy to determine the contribution to be paid by the entity into the plan.			• (§148B e)
A description of the extent to which the entity can be liable to the plan for other entities' obligations. (IAS19 - 148 b)	✓		• (§148B f)

	Current IAS 19	ED revision of IAS 19 (with ref to paragraph number)	
A description of any agreed allocation of a deficit or surplus on the wind-up of the plan or the entity's withdrawal from the plan. (IAS19 - 148 c)	✓		• (§148B c)
The fact that the plan is defined.	✓		• (§148B a)
The reason why sufficient information is not available to enable the entity to account for the plan as a defined plan.	✓		
The expected contributions to the plan for the next annual reporting period.	✓		
Information about any deficit or surplus in the plan that may affect the number of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.	✓		• (§148B b)
An indication of the level of participation of the entity in the plan compared with other participating entities.	✓		• (§148B d)
Defined benefit plans – Multi-employer plans (accounted for as defined benefit) Note 4			
Description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements. (IAS19 - 148 a)	✓		
Description of the stated policy to determine the contribution to be paid by the entity into the plan.			• (§148B e)
A description of the extent to which the entity can be liable to the plan for other entities' obligations. (IAS19 - 148 b)	✓		• (§148B f)
A description of any agreed allocation of a deficit or surplus on the wind-up of the plan or the entity's withdrawal from the plan. (IAS19 - 148 c)	✓		• (§148B c)
An indication of the level of participation of the entity in the plan compared with other participating entities.	✓		• (§148B d)
Defined benefit plans – Shared risks between entities under common control (accounted for as defined contribution) Note 3			
The contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.	✓		
The policy for determining the contribution to be paid by the entity.	✓		• (§149B c)
Information about any deficit or surplus in the plan that may affect the number of future contributions to be paid by the entity			• (§149B a)
A description of the level of participation of the entity in the plan compared to other participating entities.			• (§149B b)
A description of the extent to which the entity can be liable to the plan for other entities' obligations.			• (§149B d)
If the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144 and 147(a) and (b).	✓		

	Current IAS 19	**ED revision of IAS 19 (with ref to paragraph number)**	
Defined benefit plans – Shared risks between entities under common control (accounted for as defined benefit) Note 4			
The contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.	✓		• (§149D a)
The policy for determining the contribution to be paid by the entity.	✓		• (§149D c)
A description of the level of participation of the entity in the plan compared to other participating entities.			• (§149D b)
A description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the plan.			• (§149D d)
If the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41 of IFRS 13, all the information about the plan as a whole required by paragraphs 135–147.	✓		

Note 1: The proposals in the ED request the disclosure of a tabular reconciliation of the significant reason for changes in the net defined benefit liability (asset). However, the IAS 19 request showing separate reconciliations for the plan assets, the PV of the obligation and the effect of the asset ceiling.

Note 2: The proposals in the ED request the disclosure of a tabular reconciliation of the significant reason for changes in the net defined benefit liability (asset). However, the items to show as reasons for change are not mandatory while in the IAS 19 these are mandatory.

Note 3: In addition to the specific examples provided relating to multi-employer plans or shared risks between entities under common control that could meet the specific objective, the entity could also disclose, to meet that objective.

Note 4: In addition to the specific examples provided relating to multi-employer plans or shared risks between entities under common control that could meet the specific objective, the entity needs to meet the other specific objectives as well as the overall objectives for defined benefit plans.

Questions for EFRAG TEG and User Panel

21 Do EFRAG TEG and User Panel members have comments on the general approach? Do you prefer more entity specific information? How important is comparability?

22 Would the benefit from such change outweigh cost of such a change?

23 Are you concerned about reliability of information as in the Alternative Opinion enforceability and auditability is addressed?

24 Do you use fair value information currently provided for assets/liabilities that are not accounted for at Fair value as stated in paragraph 97 of IFRS 13[1]?

25 Do you agree to focus specific disclosure requirements in IAS 19 on Defined Benefit plans?

[1]For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRS.