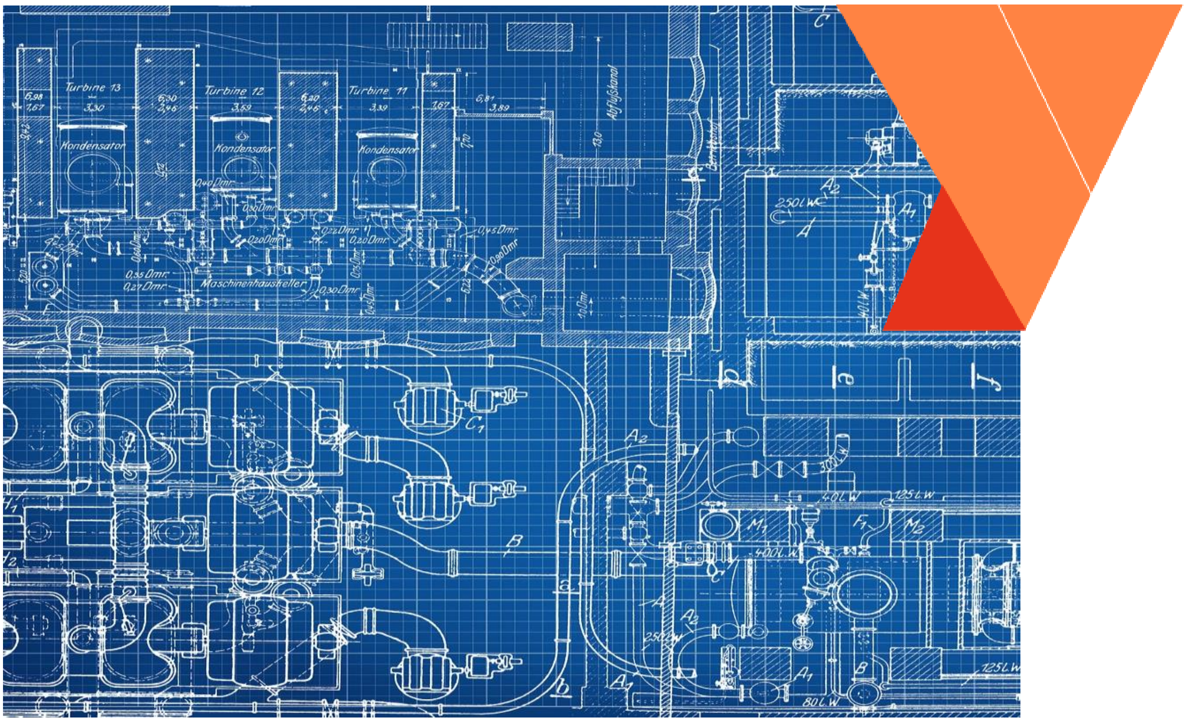
TARGETED DISCLOSURE:

HOW WOULD IT WORK IN PRACTICE? BLUEPRINT FOR FUTURE IFRS DISCLOSURES

SUMMARY REPORT

30 JUNE 2021



EFRAG
European Financial Reporting Advisory Group

IFRS®

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event.

Background

EFRAG and the IFRS Foundation organised a joint webinar 'Targeted disclosures: how would it work in practice' on 30 June 2021. The aim of the online outreach event was to promote an understanding of the potential innovations promoted by this new disclosure approach, to stimulate the discussion around the IASB Exposure Draft *Disclosure Requirements in IFRS Standards - A Pilot Approach* (The 'ED') and to receive input from constituents. This report has been prepared for the convenience of European constituents to summarise the event and will be further considered by the involved organisations in the respective due process on the IASB discussion paper.

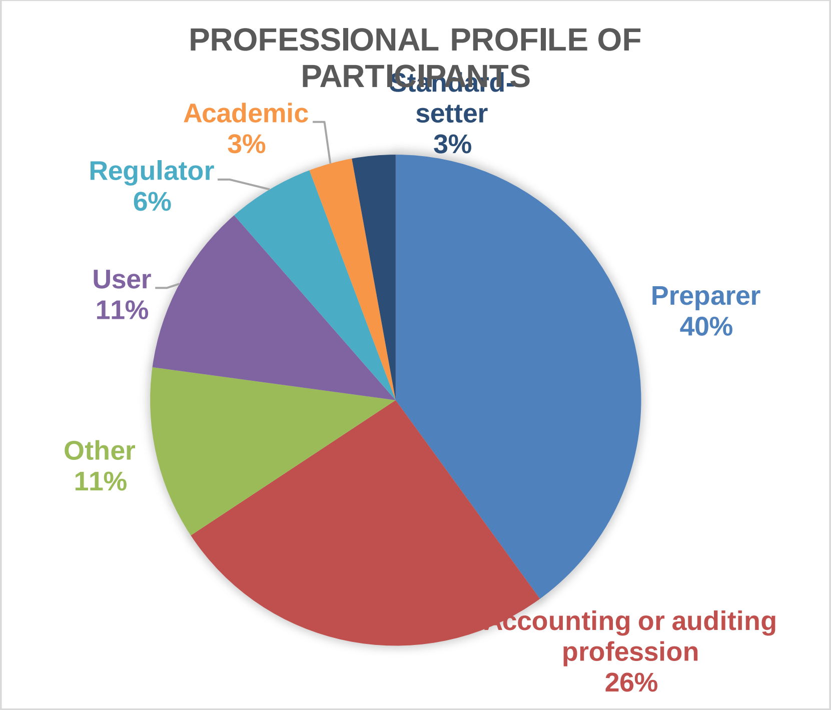
The program of the event can be found here. The biographies of the speakers and panellists can be found here. Finally, the slides used during the event is available here.

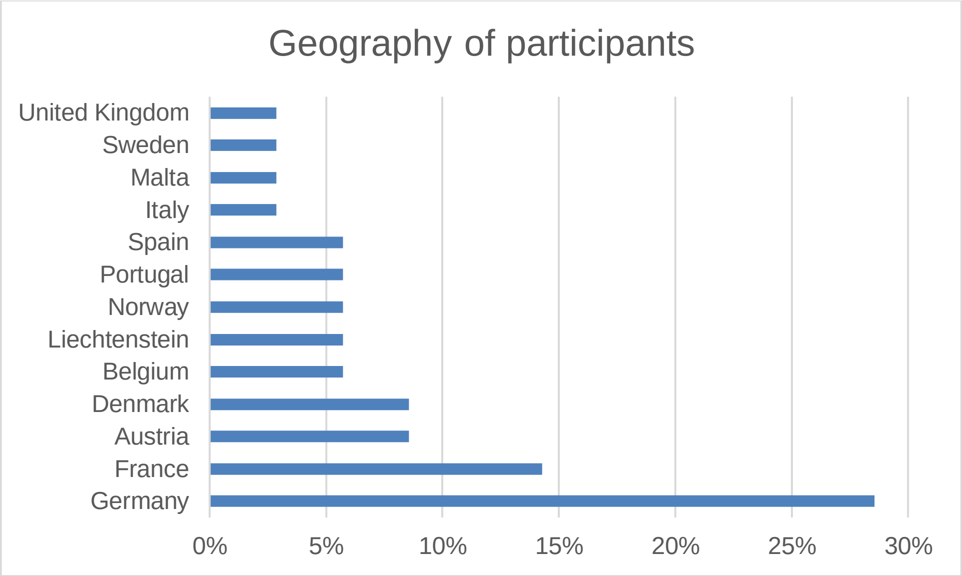
For each of the topics discussed during the online outreach event, the IASB representatives introduced the proposals, the EFRAG representatives presented EFRAG preliminary position, and a panel discussion took place. The audience provided their views on the proposals through online polling surveys and questions to the speakers.

Welcome

Saskia Slomp, EFRAG CEO, welcomed all the participants and panellists to the webinar. She extended a special word of welcome to Françoise Flores on her last day as IASB Board member but also as previous EFRAG Chair and EFRAG TEG Chair.

She then introduced the first two audience questions to understand the professional and geographical background of the participants and handed over to Françoise Flores.





General approach

1. Presentation by the speakers

Françoise Flores, IASB Board member, thanked all those involved in the arrangement of the joint event and those attending. She then described the disclosure problem and the importance of effective application of materiality in reaching appropriate disclosure outcomes. She highlighted previous IASB projects which intended to help entities apply effective materiality judgements. The IASB has received the message that the work done is not sufficient and that, to help address the disclosure problem, the IASB should change the way it sets disclosure requirements in the Standards thus resulting in the current exposure draft. The proposals are intended to help entities move away from applying disclosure requirements like a checklist — an approach which is not sufficient because judgement is required to evaluate whether disclosure objectives and materiality requirements have been met.

She then discussed the main features of the proposals, explaining that the IASB has developed a new approach to developing and drafting disclosure requirements (‘Guidance for the IASB’) that is based on requirements to satisfy detailed and specific disclosure objectives. Those objectives would both require entities to apply judgement about what to disclose and contain information about investor needs that would give entities a basis for exercising that judgement. Françoise Flores explained that the IASB is taking full responsibility for identifying users’ needs and explaining them in disclosure requirements, and for identifying items of information that may help preparers to fulfil those needs. She emphasised that the language used to describe those items of information is intended to make clear that information disclosed should be based on an assessment of materiality and that preparers are not allowed to dismiss summarily the “while not mandatory” suggestions. She explained that while the items of information should not be used as a ‘to-do’ list, they may be useful to challenge a preparer’s judgement at the end of the process. The IASB has tested its proposed approach by applying it to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*. Françoise Flores emphasised the importance of fieldwork — using the proposed disclosure requirements for the two test Standards — in order to test how the proposals would work in practice. She indicated that all stakeholders need to consider these proposals with an open mind to overcome the disclosure problem.

Françoise Flores contrasted uniformity to comparability and highlighted that if better materiality judgements lead to more dissimilar information than today it would be positive. Such dissimilar information between companies could result from: additional entity-specific, relevant information provided; the provision of relevant information that is currently missing; and the removal of immaterial information that currently obscures more relevant and important information.

She finalised her presentation by explaining how the proposals would be reflected in the IFRS taxonomy including the use of block tagging for all disclosure objectives and an element created for all items of information. Therefore, non-standard extensions would only be required for unique or unusual items of information.

Chiara Del Prete, EFRAG TEG Chairwoman, reflected on the short timeline available for quality inputs to the project and the importance of the field testing as mentioned by Françoise Flores. She then discussed aspects of EFRAG's draft comment letter ('DCL') which is the preliminary outcome from EFRAG's due process. Depending on the results from the field test, this position may change.

EFRAG considers that the developing and testing of such an approach to disclosure has merits and should be encouraged in the context of reducing the use of checklists. However, the exposure draft does not explain the relationship between the individual disclosure objectives and the materiality concept. Furthermore, EFRAG's DCL invites the IASB to clarify how the objectives would serve the stewardship objective of financial reporting and to consider further the increased use of digital reporting and its impact on this project.

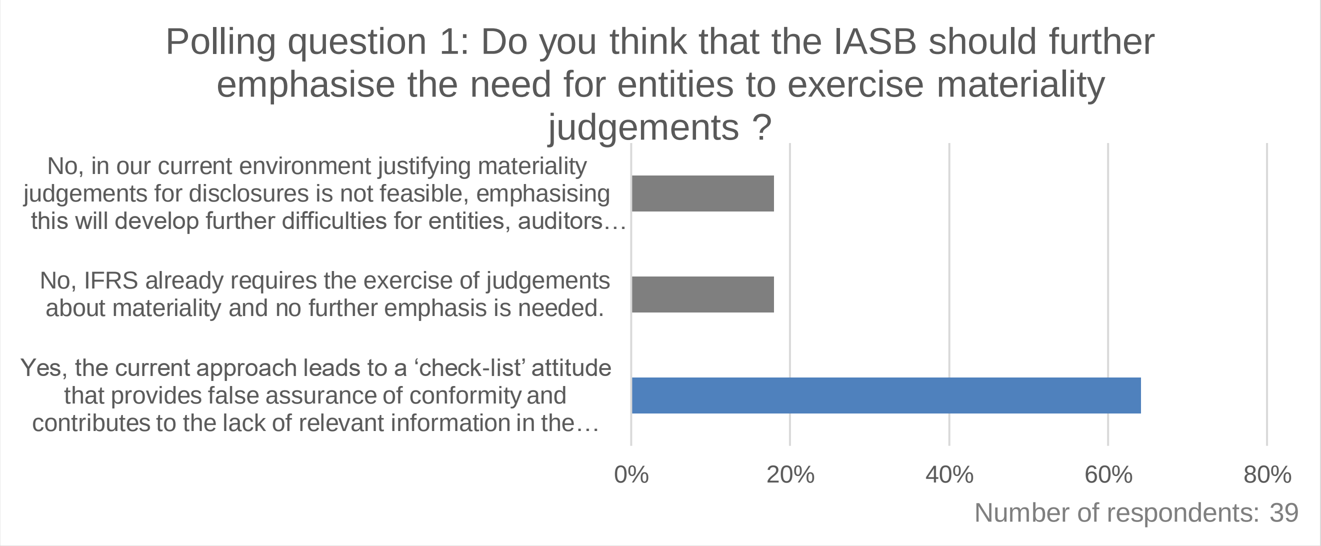
Chiara Del Prete introduced a key question that EFRAG is asking in its DCL: should the IASB only mandates the overall and specific objectives for each IFRS Standard (as proposed in the ED), or should the IASB also mandate a list of minimum disclosure requirements that are necessary to meet the disclosure objectives? She discussed how the proposal is a radical change from existing guidance and will require more entity-specific information in the context of higher levels of judgement. EFRAG considers that the success of the project will depend on the IASB striking the correct balance between a tier of disclosures that are always required and objectives to elicit additional entity-specific disclosures.

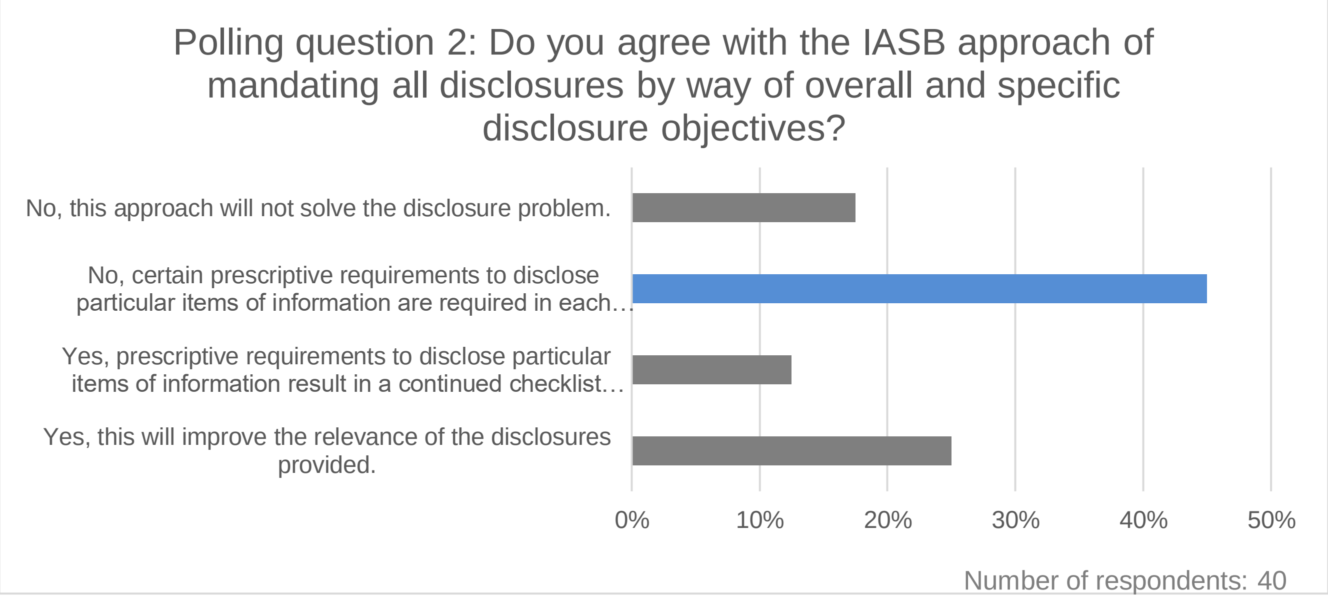
The use of less prescriptive language and the knock-on impact for auditors and regulators were discussed with a suggestion to clarify further the meaning of the new wording. EFRAG also observes the wide range of users' needs and how those may change over time.

She also discussed the field test especially in how it would reflect potential changes to current practices and therefore, the likely success of the project and the new approach. A thorough assessment of the costs and benefits would also be required, including the loss of disclosures currently provided. Finally, she commented that the response period is too short to conduct a proper field test and therefore EFRAG proposes a substantially longer period for consultation.

2. Discussion

Michael Fechner, Manager at Daimler AG's Accounting Department, thanked Françoise Flores and Chiara Del Prete and then introduced the first polling questions.





Michael Fechner commented that both of the speakers referred to the project as a game changer that would require a change in behaviour from every party involved and introduced the first panel as moderator.

Nicklas Grip, Senior Vice President and Head of Regulatory Strategies at Group Finance at Svenska Handelsbanken, indicated that he supports objective-based disclosures. He also welcomed Françoise Flores's introductory comments but stated that the ED wording is not entirely aligned and that his comments are focussed on the wording of the ED rather than the intent of the IASB.

He admitted that initially his view was that the IASB need to strike the correct balance between general objectives and detailed guidance, but that due to ED structure this has not happened. However, after investigating the proposals more deeply, he now considers that there is a good balance between the 'shall' and 'may' requirements, but that there are still problems with the wording.

He considered that the problem with the current drafting is that preparers should consider 'all detailed requirements that any user may consider material'. The ED focuses on "all material needs" and in practice this means that preparers would need to prove that these needs have been considered. They also need to consider what may be necessary in the future as well because what is not material at reporting date might be relevant later. When preparers ask users about their needs, they always ask for more information. Therefore, based on the wording in the ED it is very difficult for preparers to fulfil the requirements in the ED.

This wording can be contrasted with the objectives in IFRS 7 that focusses on what the preparer considers relevant for the users (e.g., 'enable users to evaluate' or 'if the entity believes'). The ED states that what is in the standard may not always be sufficient. IFRS 7 focuses on achieving an understanding of the risks within the entity and not requiring providing all possible information that may be of interest for users. To comply with the ED, preparers would have to conduct user outreach before each quarterly results announcement which is clearly not feasible.

Nicklas Grip concluded that objective-based disclosure requirements are the right way for the future development of disclosure requirements, but the focus needs to be on what the entity believes is useful information for the users. Therefore, some minor drafting adjustments, he considered that this would be a good balance and would counter the current hesitation around the ED at this stage.

> "*I think that when we consider the use of disclosure checklists today, it is clear that it is not being used as a checklist, but rather as a to-do list.*" **Françoise Flores.**

Malgorzata Matusewicz, Associate Partner, IFRS Desk at EY Poland, started by saying that most constituents seem to agree that the checklist approach has not worked. She questioned whether the problem relates to incorrect application and insufficient enforcement of the existing guidance, or whether the problem lies rather with the standards themselves. Although a simple and unambiguous answer to the question is unlikely, she is convinced that further standard setting is required to address the disclosure problem and therefore she supports the project and considers that it could be very helpful to kick-off the change in mindset.

She considered the necessary behavioural changes the biggest challenge to these proposals, and it needs to be a joint effort from the IASB, preparers, users, auditors and regulators. Therefore, a major re-think is required. Malgorzata confirmed that she also supports an objective-based approach and appreciates the early involvement of users in the development of the proposals. Explanations in the standards of how the information can be used by users is also particularly helpful, adds value and can support behavioural changes.

However, she pointed out that moving too far away from required items of disclosures would not necessarily be appropriate. First, as more judgement is required, the comparability is put at risk as entities may exercise judgement differently where facts and circumstances are similar. Also, this proposal may require unrealistic efforts (in particular, for medium and smaller entities), having to understand the needs of users. As a consequence, it may happen that not much will change, as some entities may use the new proposals as a different kind of checklist. She also pointed out that auditability remains a concern where more judgement is required and that the distinction between mandatory and non-mandatory items raises some concerns.

She concluded that she believes that those concerns can be overcome during the standard-setting process and that, overall, the project is worth a try.

Isabelle Grauer-Gaynor, Corporate Finance and Reporting Team Leader at ESMA, stated that ESMA supports the ambition and objective of the project as financial statements frequently do not contain material information which would be of relevance to users. To the contrary, disclosures are generally lengthy, boilerplate and non-entity specific, which do not serve the information needs of users of financial statements. This is despite ESMA's attempts to improve the situation in this regard. ESMA also considers that the so-called disclosure problem is only partly caused by how the standards are written. In ESMA's view, the real problem is behavioural in how entities apply – or rather do not apply - materiality judgement. Isabelle noted that the current standards suffice for those entities who thoughtfully apply materiality judgements to their disclosures and do not include non-material information.

Therefore, ESMA does not consider that a radical re-think of how standards are written is warranted. Having said this, ESMA welcomes the general and detailed disclosure objectives as this may help preparers in the application of materiality judgements. However, while ESMA understands that the IASB is attempting a culture shift, ESMA considers that the approach of not including detailed disclosure requirements but only provide examples which are 'not mandatory to disclose' goes too far and is therefore risky. ESMA continues to support the inclusion of minimum mandatory disclosure requirements where preparers would apply the general materiality approach per IAS 1 similar to today's situation.

She also explained ESMA's concerns that the ED could decrease comparability, even though she understands the distinction between uniformity and comparability as highlighted by Françoise Flores. However, if the standard strikes the right balance between detailed disclosure requirements and requirements to comply with objectives, these concerns are likely to be addressed.

Dennis Jullens, Lecturer at University of Amsterdam, observed that there are different user categories and each of these categories of users use different types and bits of information. There is no single user-type today. He stated that large companies with extensive investor relation departments do know what users want at a particular moment in time. As to whether users knowing what they want, he pointed out that needs vary over time and referred to the crisis credit crisis when banks had to disclose their CDOs and CLOs[1] holding. Similarly, during the European crisis, users wanted to know banks' exposures to Greek bonds or more recently required information about the supply chain financing of companies. Therefore, the information required is a dynamic information set and the proposals seem to put the onus on preparers to say what is relevant in a given point in time.

He also indicated that users do not read the financial statements from front to end, but rather select the information relevant to them and will refer to relevant parts as and when necessary. Therefore, one may not have many users complaining about the disclosure overload, but it is difficult for entities to conclude as to what is a "nice to have" and what is essential. In his view, a list of information required in all circumstances would be helpful to compensate for the potential loss of comparability.

While user needs may vary over time, it does not necessarily mean that the disclosure objectives would need to vary on an ongoing basis, but minimum disclosures may mean that users will have some aspects of the information needed.

He commented that he still prefers old-school hardcopy PDFs and then input numbers into his models. Some companies do issue financial information in electronic format such as Excel files which is very helpful, but it is clear that moving to ESEF or XBRL would simplify things for users.

Malgorzata Matusewicz reflected on the existing objective-based disclosures in current IFRS Standards and commented that they can be really helpful in assessing the disclosure quality and in discussions with audit clients. She mentioned IFRS 7 as an example of good combination of both disclosure objectives and a list of required disclosures. She provided an example of liquidity risk disclosures - from auditors perspective, referring to disclosure objectives included in IFRS 7 may be very useful when evaluating the proposed disclosure of an entity. In many cases like this, defining a disclosure objective is more useful than solely providing a list of required disclosures as it could never cover all aspects.

However, it may be difficult when there are differences in views on what needs to be disclosed to meet specific disclosure objectives. Also, form her experience, resistance from preparers to disclose additional information that is not strictly required is not uncommon (regardless of whether a given Standard defines disclosure objectives or not). At this stage, the checklist mentality is prevalent, and it is rather unusual to consider the disclosure objectives when determining which information to disclose.

[1] Collateralised loan and debt obligations.

Isabelle Grauer-Gaynor argued that the wording is not sufficient to help enforcement of the proposals. Enforcers are the third line of defence and have even less information available compared to auditors, so they are in a more difficult situation than auditors. She explained that, should the IASB proceed with their proposals, the hurdle for enforcers to require relevant disclosures from issuers who are not willing to be transparent would be too high. In the absence of specific disclosure requirements, it is likely to be difficult for an enforcer to conclude that the judgement of the preparer is not reasonable and that specific information is required. Isabelle also highlighted the important role of the IASB during its due process in analysing the common information needs of users and to prepare a potential list of disclosures that are expected to be relevant and material.

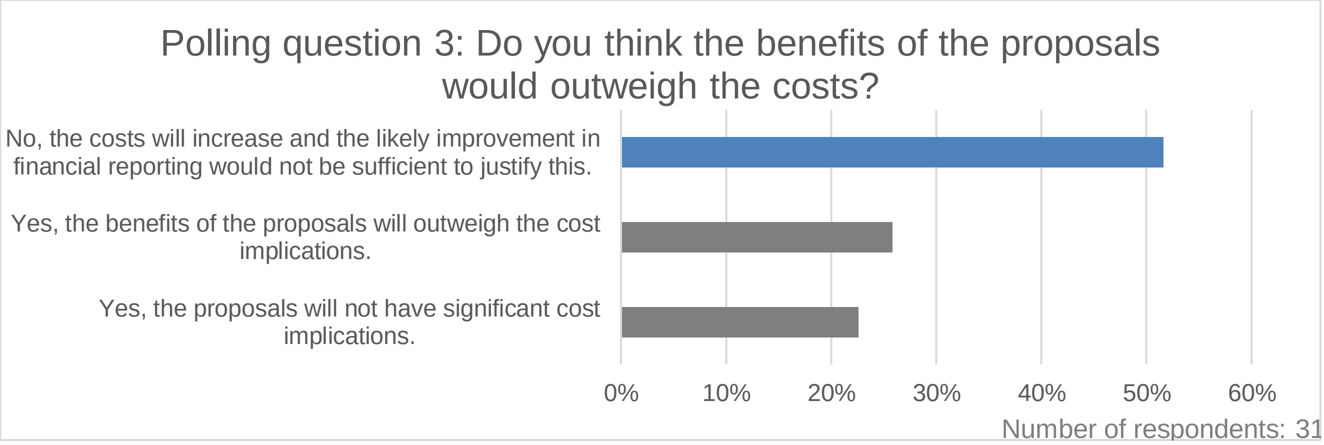
She understood that, as mentioned by Dennis Jullens, different sets of users will require different types of information but insisted on the important role the IASB plays in defining the common needs.

The use of the word 'non-mandatory' may prompt preparers to limit the amount of information disclosed regardless of its materiality and relevance to users. Currently, it is already the position that immaterial and irrelevant information is not required and therefore, ESMA would favour wording in existing standards such as 'to meet the objectives in paragraph x, an entity shall disclose …'. The general materiality principle in IAS 1 would be applicable as it is today, i.e., information would only be disclosed if material to the entity.

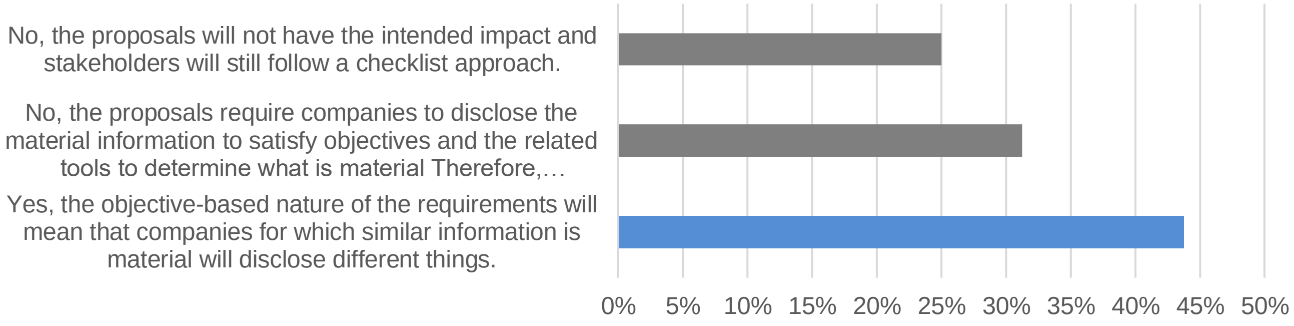
> "*The new approach would require a change in mindset from all stakeholders – the IASB, preparers, auditors, regulators and users*." **Malgorzata Matusewicz**

Nicklas Grip reiterated that changes to the ED wording focussing on the preparers understanding of what relevant information is instead of focussing on all possible needs of any user would result in straight-forward discussions with auditors and enforcers if the preparer wants to disclose relevant information. He referred to the implementation of IFRS 7 as part of the transition to IFRS, and that his employers focus on the disclosure objectives and structured the notes to achieve those objectives had worked well with auditors and enforcers.

He recounted that while it took a lot of discussions in the first year, this quietened down subsequently and over time they have observed others following their lead. However, if the current wording is kept, preparers may need to prove that they had considered all possible needs of users that could lead to extensive discussions with the auditors on an ongoing basis. This could mean that preparers would be concerned that they are disclosing too little and would encourage increased checklist behaviour.



Polling question 4: The proposals aim at improving the relevance of disclosure, but some are concerned that comparability within and across sectors would decline. Do you think that comparability would be impaired by the proposals?



Number of respondents: 32

Audience question: *Could the words "while not mandatory" be explained to mean "comply or explain"?*

Kathryn Donkersley, IASB Technical Staff, indicated that in short, that is not what was intended with those words. She clarified that the minimum requirement is to satisfy the disclosure objectives. Items of information are provided to help entities exercise judgement in determining how to satisfy those objectives. The few items of information in the proposals that are described as mandatory do not form minimum requirements — instead, they arise in cases where it would not be possible to satisfy a specific disclosure objective without a particular item. She also explained that the IASB phrased the objectives as a requirement to disclose information that 'enables' a user to understand as the IASB is not expecting preparers to be accountable for the actual analysis that users perform. Instead, the IASB has challenged itself to clearly communicate the common needs of users in the standards based on its research.

Audience question: *Has the ECB as supervisor of significant banks been involved in drafting the proposals?*

Kathryn Donkersley stated that the ECB was not involved in the drafting, but as IFRS 13 was selected as an example of how to apply the new approach, the IASB considered carefully the aspects related to banks when drafting the proposals. An example is that the IASB discussed several times the opening balance to closing balance reconciliation of Level 3 items and the importance of these for banks.

Proposed changed to IAS 19 disclosures

Kathryn Donkersley, IASB Technical Staff, presented the proposed amendments to IAS 19 included in the ED. She focused on defined benefit plans (DBP) as these plans are riskier than other pension schemes according to the messages received from the IASB's stakeholders and, consequently, these are the plans for which users are most interested in disclosure information.

Kathrin Schöne, EFRAG project director, introduced EFRAG's initial positions as included in EFRAG's Draft Comment Letter. She highlighted the importance of a discussion about hybrid pension plans, field test activities, as well as outreach events.

3. Discussion

Anna Vidal Tuneu, Accounting Policies and Financial Regulation Director at Caixabank Group, noted that the content of the ED on DBP provides a good basis for preparers to inform about the nature of the plans and the risks that entities are exposed to. It would also allow entities to move away from the current prescriptive requirements that some entities use as a "checklist approach". Some entities provide lengthy notes under current IAS 19 not allowing users to have a clear picture of the main benefits provided to their employees and risks of their pension plans.

She highlighted the following advantages of the IAS 19 Amendments compared to the existing IAS 19 requirements; 1) greater emphasis on materiality; disclosures are only required if relevant to satisfy either specific or general disclosure requirements, 2) the ED provides items of information that may be useful to users to meet the objectives different than current IAS 19 requirements such as the strategies the entity has in place to manage DBP or whether plans are open or closed to new members. These items are already disclosed by some companies, but its explicit inclusion may improve comparability and 3) the Amendments require entities to disclose information that enables users to understand the significant actuarial assumptions used in determining the defined benefit obligation instead of disclosing the assumptions themselves. It would allow entities to focus on the reasons why some assumptions were considered rather than on the assumptions themselves.

She also remarked that field work activities are necessary to assess proposals, such as those related to cash flows or sensitivity analysis, that may need a deeper thought. As a general remark and having a broad experience on DBP and defined-contribution plans (DCP) in Spain and Portugal and on different plans with different characteristics that leads to different risk exposures, she considered that the new approach would lead to useful information for users and allow entities to have greater flexibility in deciding which are the relevant disclosures. However, she also noted that entities would need to use more judgment and document conclusions on why certain disclosures are useful for users.

Nicklas Grip noted that the proposed disclosures are useful considering the caveat of what users may need discussed in the first panel. He remarked that, having implemented IAS 19 in 2004 in an entity with a global presence, pension plans have different characteristics, such as risk or structure, in different jurisdictions. In his view, the proposal focuses a lot on UK pension plans. Disclosure requirements may be relevant to UK pension plans but not necessarily as relevant to other pension plans. In spite of that, he noted that if not relevant, the ED allows entities to disclose other information.

Therefore, even though the ED is workable, he would have appreciated to have more balanced basis requirements. With regard to sensitivity analysis, he considered sensitivity on discount rate as a meaningful disclosure that you would always need to provide due to its significant direct impact on equity. In addition, disregarding costs, a scenario analysis where you change several parameters at the same time would be useful for users.

Finally, he expressed his disappointment that there were no review of the disclosure requirements for DCP. Some of those plans may give rise to significant impact on both future cash flows and earnings during remaining time of service for the employees.

Malgorzata Matusewicz, noted that the proposals discourage checklist mentality. However, she considered that there is a risk that entities continue disclosing existing IAS 19 requirements as they may consider that these disclosures are enough to meet the disclosure objectives. They may also simply eliminate disclosures that are not mandatory in the proposed standards. In her view, enforceability would become an issue.

She indicated that, overall, the content of the ED may have different interpretations from preparers and enforcers. In this regard she considered performing extensive field test activities and adding guidance on materiality judgments and on assessing the achievement of the disclosure objectives to be important.

Andre Geilenkothen, Partner at Aon in Germany, agreed with Nicklas Grip that the ED focuses on UK pension plans instead of focusing on other plans that have different features. He noted that, as the window to prepare the information is usually quite narrow and the time for those who are involved in preparing/reviewing disclosures is usually busy, it is important to define early in the year what should be prepared to avoid inefficiencies and unnecessary costs. Entities would also need to define a process with auditors to agree on how to apply materiality judgment and finally on deciding what information needs to be disclosed.

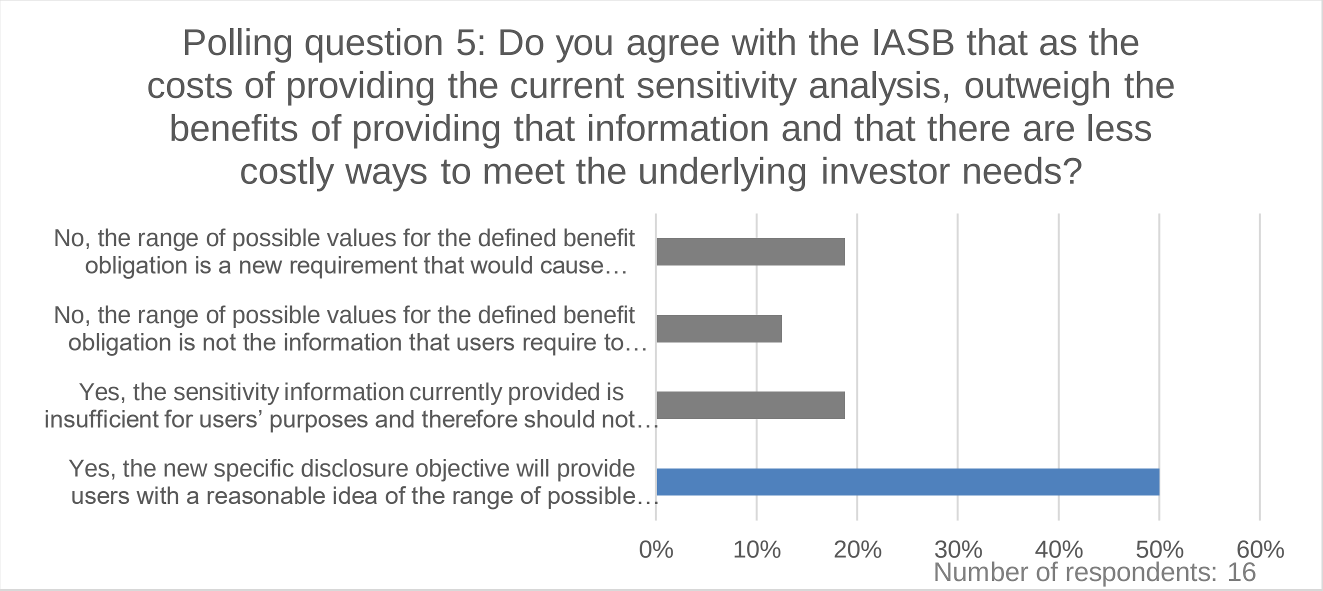
He also noted that requirement for cash flow information is a meaningful objective. However, he expressed the view that it is necessary to discuss what cash flows need to be disclosed, i.e., what is on the balance sheet as defined benefit obligation or including, on top of the obligation, what the plan will accrue in the future. Also, whether it is the benefit payments out of the obligation or the contributions into the plan considering whether it is an unfunded plan, a partly funded plan or a funded plan. These matters are important and further guidance may be helpful. Otherwise, it would need to be discussed with auditors.

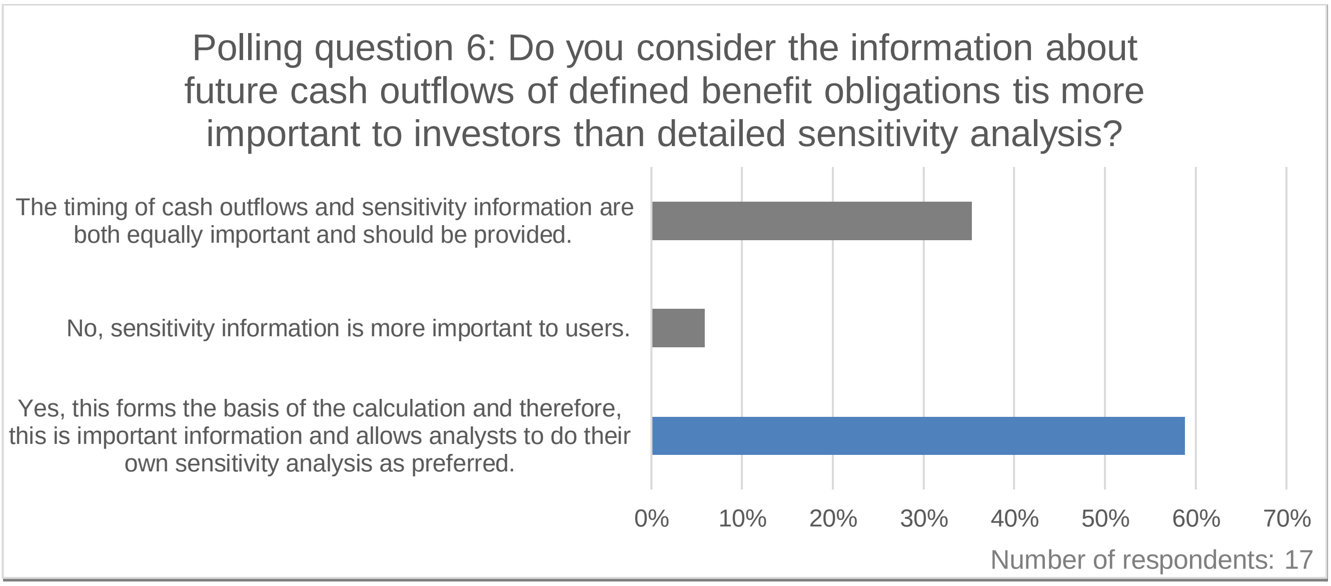
Regarding interest rates he noted that is an important assumption with a material impact on the obligation. More narrow guidance would be helpful as well as sensitivity disclosures, which are helpful for users, entities and auditors. As a last statement, he noticed that many consider the quantity of IAS 19 disclosures to be helpful so the need to prepare different information is seen in some instances as limited.

Dennis Jullens noted that if DBP are material users of financial statements would like to get as much information as possible. However, if these are not relevant a summarized version would be acceptable. He questioned why in this specific area the concept of materiality was not stronger applied. He also questioned why we needed the pension information separated from the income statement, the EBIT, the EBITDA or the cash flows. A liability for an unfunded pension scheme would directly affect the value of the business. Though he would be less interested in the sensitivity of assumptions like mortality or career progression, the pension liability would be enormously sensitive to a change in the discount rate, being that a crucial disclosure he would like to have.

On Andre Geilenkothen's point he considered having a balance between narrative and numbers to be necessary, though the narrative part may not be as relevant as numbers from a user perspective.

Andre Geilenkothen expressed the view that providing a range of possible valuations to measure management uncertainties would be difficult to apply as well as counterproductive with the concept of best estimate. Providing the entity's best estimate as well as few other alternatives to it would be difficult and likely lead to discussions. However, sensitivity analysis combined with expected information on cash flows could be very helpful.





Nicklas Grip noted, in relation to cash flows, that different plans have different features. Using its own employer, the return on plan assets had financed future cost of service for a very long time wherefore the net cash flows in the plan was zero. Therefore the expected cash flows would not be as important as the level of return on plan assets needed to continue financing those defined benefit schemes.

Dennis Jullens noted, also in relation to cash flows, that any information on cash flows going from the sponsor to the plan would be appreciated as that would impact on the deficit of the defined benefit liability.

> “*If DBP are material users of financial statements would like to get as much information as possible.*”
> **Dennis Jullens.**

Malgorzata Matusewicz shared the concern about the differentiation between mandatory and non-mandatory disclosures. Some non-mandatory disclosures may become mandatory if these disclosures are necessary to meet specific disclosure objectives and the other way around, mandatory disclosures may become non-mandatory if the information is assessed to be immaterial for users. Also, existing non-mandatory disclosures are in her experience difficult to enforce. Therefore she would suggest eliminating the differentiation between mandatory and non-mandatory disclosures.

She also highlighted the difficulty of applying judgment to assess whether certain items of information would meet specific disclosure objectives. In this regard, she indicated that some additional guidance would be helpful. Specifically, the illustrative examples could show the process that leads to the disclosure of certain information and not to provide other information, a mapping between the requirements and the ultimate outcome with some explanations including judgments and materiality considerations. This may would add value and make the proposals comprehensive.

Audience question: *How should a user be able to move away from the existing disclosure requirements to better disclosures about cash flow risks without specific disclosure requirements developed by the IASB?*

Kathryn Donkersley replied to the audience question that the proposals gave stakeholders a lot of support in applying judgment. In particular, the IASB has provided more guidance to the disclosure objective that enables users to understand the cash flows effect than to any other. This objective is supplemented with explanations of what users will do with the information, items of information, application guidance and illustrative examples. All of these give companies tools to apply judgment and disclose what is relevant.

She noted that, as highlighted during the panel discussion, DBP vary across schemes, companies and jurisdictions. For example, what is useful information that is likely to meet users’ needs is likely to be different for a company with a net deficit that has an agreed deficit reduction plan in place than for a company that does not have such a plan in place. The IASB had long discussions about this matter with entities and users. Entities agreed that this is important information that is often already internally monitored. Users noted that if information is useful for those that manage the scheme within the organisation, it would likely to be useful for them too.

She also added that the proposals provide different examples for different scenarios that could exist and allowed for entities to disclose the most useful information based on their circumstances. If the IASB had required prescriptive requirements it would be great for some companies but not necessarily for others. In her view, the proposals would enable companies to disclose more useful information than they do today.

Audience question: *The discount rate sensitivity has an impact on equity but not on expected future cash flows so might be more a valuation issue than a liquidity issue, don't you think?*

Dennis Jullens replied to the question from the audience that there was a valuation angle as the value of the company's equity was a function of the business value. The net pension liabilities would be deducted to determine the value of a business. However, changes in the liability due to a change of the discount rate that increases the liability would lead to future cash flows going from the sponsor to the scheme so in this case it would also be a liquidity issue. Therefore, it is difficult to disentangle both aspects.

Proposed changed to IFRS 13 disclosures

Kathryn Donkersley presented the proposed amendments to IFRS 13 included in the ED. The proposals respond to key messages from stakeholders about the importance of proper application of materiality to IFRS 13 disclosures. Users have informed the IASB that detailed IFRS 13 disclosures sometimes focus on immaterial fair value measurements and do not contain sufficient information about material fair value measurements. The IASB proposes disclosure objectives that explain user needs in detail, require companies to focus on the appropriate level of detail and remove a perceived Level 3 checklist by avoiding reference to particular levels of the fair value hierarchy where possible and helpful.

She also mentioned that one of the key matters that investors need to understand is the exposure to uncertainties associated with material fair value measurements and that this theme is reflected across all of the proposed specific disclosure objectives.

Fredré Ferreira introduced EFRAG views. She mentioned that EFRAG preliminary assessment agreed with the overall and specific disclosure objectives for items measured at fair value or for which fair values are disclosed could be useful to understand the information needs of users.

She added that significant judgements and assumptions could be useful as entities should have some flexibility to determine the form and level of disclosure that best meets users' needs. However, EFRAG acknowledged, regarding the sensitivity disclosures on Level 2 and Level 3 instruments, that the trade-off between costs and benefits increase the burden on preparers significantly when applying judgement.

4. Discussion

Selma Marte, Head of Group Accounting Policies at BNP Paribas, supported a general approach for disclosures based on clearly identified overall and specific objectives. She mentioned that the overall objective of evaluating the entity's exposure to uncertainty from fair value measurement is a reasonable target for disclosures on fair value. Regarding specific objectives for assets and liabilities measured at fair value these are quite comprehensive and mostly apply regardless of the classification in the fair value hierarchy.

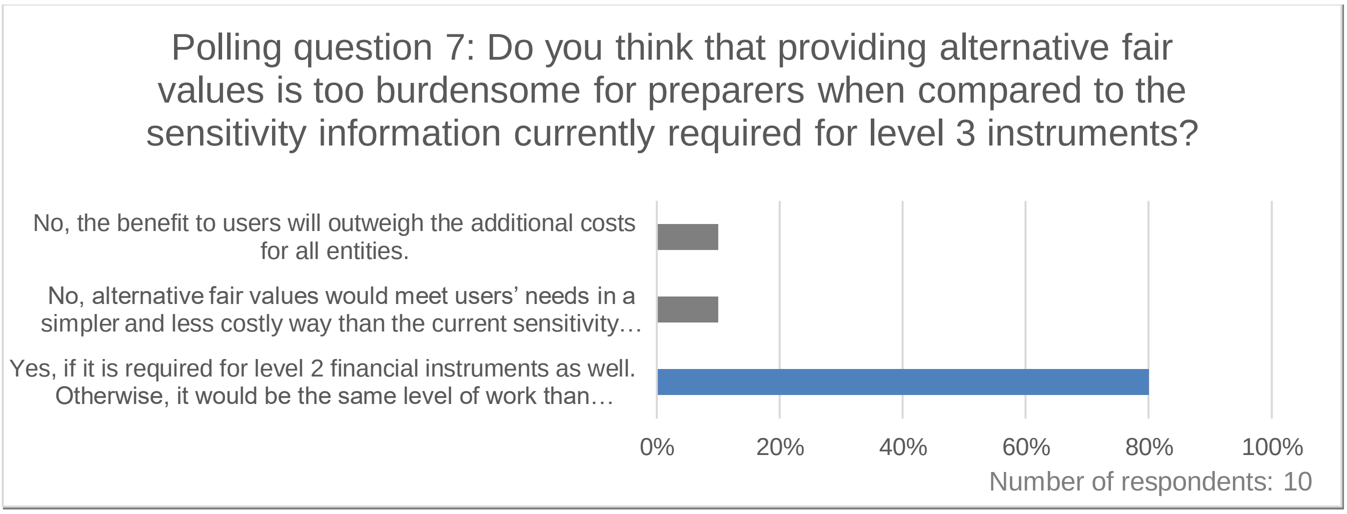
She highlighted that whereas Level 3 disclosures relate to a small number of assets and liabilities, there are huge volumes of instruments in Level 1 and Level 2. For those instruments, tracking changes in fair value or the reasons for transfers between Level 1 and Level 2 could be extremely complex to achieve even if entities only focus on those which are material.

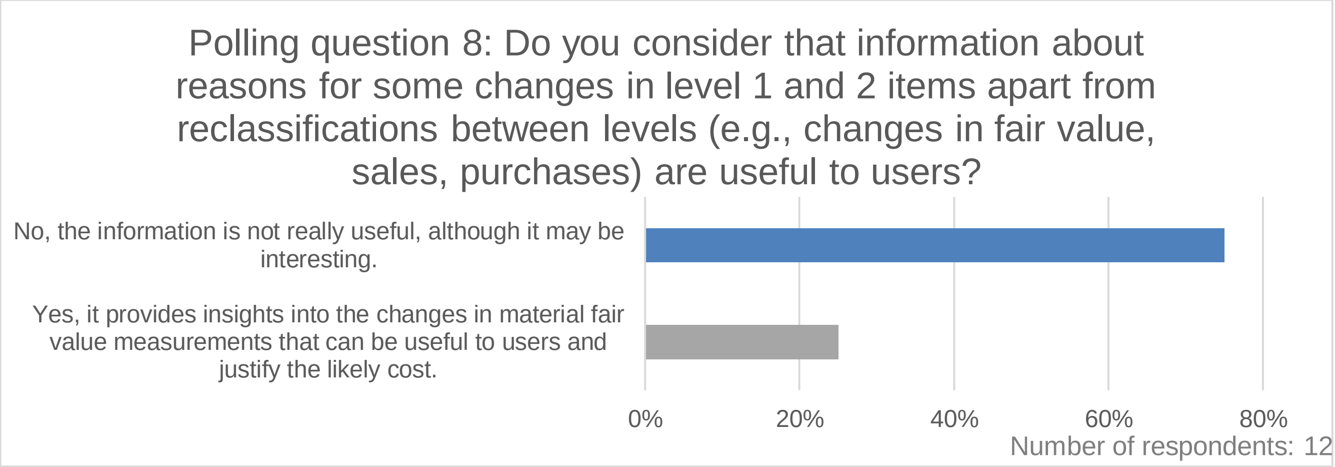
She questioned the usefulness of the objectives set for assets not measured at fair value which are expected to be held until maturity and for which IFRS 9 impairment already provides a proxy for the revaluation of credit risk. For those instruments fair value almost never materializes, is not used for monitoring or risk management is therefore very difficult and costly to obtain.

Peter Malmqvist, Member of the Board for Accounting Surveillance in Sweden, commented on how the information about fair value is used by users for corporates and financial institutions, presenting a slide which tried to illustrate in which area an equity sell-side analyst come across fair values in practice. He suggested it is rare that fair valuations have an impact on the calculation of the enterprise value. This approach would be very cash flow oriented and revaluations of any sort, should be isolated and normally stripped out of the valuation. The information coming from the revaluation as such, must be evaluated separately, if it should impact estimates of future cash flow.

The mentioned slide also illustrated, that fair values is more a balance sheet issue and as such related to the calculation of net debt. Therefore, the market value of the asset or liability at a certain point in time is important but not the change in the value.

On whether he prefers the proposal of alternative fair values to be provided compared to the sensitivity of the significant unobservable inputs for Level 3 instruments currently required. He emphasized that he is not in favor of a voluntary approach to information in the financial reports or footnotes. He considers the present situation as the best situation from others he had worked in before and does not consider there is a disclosure overload problem.





Silvie Koppes, Associate Partner at KPMG UK, commented on which are the disclosures that become challenging and will be subject to more discussion under the IASB proposals. She expressed concerns on the proposal to classify certain critical disclosure as non-mandatory as for example the ones included in IFRS 13 paragraph 110 a) and c). Especially given those requirements to disclose valuation techniques and significant unobservable inputs for Level 3 were identified in the IFRS 13 Post Implementation Review (PIR) as some of the most useful.

On the new proposed disclosures requirements, she is concerned on how to distinguish between whether a particular disclosure is material or not and whether a particular non mandatory disclosure meets the objective. She emphasized that judgment should be correctly apply for this proposal to achieve its goal.

Raoul Vogel, Member of the Austrian Financial Reporting Enforcement Panel (AFREP), agreed with Sylvie that extensive judgement will be required, if the ED is finalised and published in its present form. The application of judgement is always a challenge for preparers, auditors and enforcers. From an enforcement perspective the findings and, where applicable, the error corrections invariably revolves around the application of judgement in particular in some 'grey areas'. Although he recalled that the IASB has reduced the judgement areas over the years, he considered that there are still enough areas that remain challenging.

In countries like Austria, where the companies (even listed ones) are usually smaller compared to the ones from larger countries like Germany or France, the infrastructure tends to be also smaller and in his professional experience, quite a few entities are continuously faced with challenges around judgement calls. He highlighted those entities tend to use consulting firms or consultants but attempt to reduce these engagements to a low level in order to save costs.

Selma Marte suggested the cost of providing disclosures to meet the ED objectives would depend on the granularity of the information to be provided. For entities like banks with huge volumes of assets, a granular information would be costly to provide especially for Level 2 instruments which volumes are significant.

She stressed that the need to have more senior staff involved in the process would also have an impact on costs even if entities could rely on established governance for fair value measurement. The difficulty would probably be to achieve that senior management spend more time on these topics to identify the specific instruments or areas of uncertainty that need to be raised and the type of information that should be given to meet the disclosure objectives. Being obliged to add unanticipated disclosure at quarter-end would be costly and complex to achieve.

She proposed in order to avoid uncertainty, which is hardly compatible with closing constraints, an approach based on checklists, where judgement would be exercised to determine the appropriate level of granularity and whether an information is material.

> "*I agree with Selma that there can be a significant burden in re-mapping financial instruments measured at amortized cost to a fair value metric especially for financial institutions. When a bank or investment firm holds Level 2 or 3 instruments both on its own account but also on behalf of clients, different valuations for the same instrument may be very confusing to clients. So, in my mind simplicity and comparability must be always considered*." **Martin Petrov, participant**

Silvie Koppes emphasized that in the post implementation review of IFRS 13, the disclosures were generally considered fit for purpose. So, some may question whether IFRS 13 is the Standard that based on a cost-benefit analysis would merit application of the pilot approach project.

She added on that the reporting entity would need to make more judgements and would need to document these. Challenge by the auditor would also likely include more focus on judgment and would require more audit documentation. In practice to demonstrate to the auditor that your disclosures are complete you would have to assess against all objectives and all mandatory and non-mandatory information items. Those elements may not only increase the volume of work but likely also need to be conducted by more expensive senior resources.

Other point raised were that less comparability over time and between entities would come with a cost: a) More subjective so more prone to different insights – on both the reporting entity, auditor, regulator which would result in less continuity and more changes. b) Comparatives would need to be provided for disclosures even if the year before they were not included.

Raoul Vogel added that there would need to be a culture change for this new approach to be implemented. Entities would need to assess their business models, their transactions in the light of the revised requirements and then apply the appropriate accounting treatment. As noted above, the challenges are the additional judgements required.

He considered himself a big fan of digitalization and has affinity for IT solutions. He noted that ESEF and XBRL would be helpful in the application of the requirements of the new ED. He also believed that these digital tools could be of assistance both for auditors and for enforcers in fulfilling their responsibilities.

5. Closing of the event

Chiara Del Prete highlighted the key takeaways from each of the panels. On the general panel she noticed that there was support on the ED among the panellists as they had acknowledged that standard setting was necessary to solve the disclosure problem. However, she also noted that preparers had expressed concern about the language used in the ED and had suggested looking at IFRS 7 as a good example of balanced language. Also, enforcers had noted that the ED went too far and was risky. They, together with users, considered a list of minimum requirements to be needed.

On the IAS 19 panel, she emphasized that although preparers had reacted positively to the ED proposals, they had expressed some concerns on the documentation process to justify why certain disclosures were selected by auditors and enforcers. They had also supported the requirement of sensitivity analysis and suggested that the IASB take into consideration the diversity of pension scheme existing in the various jurisdiction rather than focus on UK pension plans. From an auditing perspective, it was highlighted that the addition in the guidance of the thought process to reach the final outcome would help entities to make judgments. From an actuarial perspective, there was concern on the compatibility with the new approach with the preparation of financial statements in short timeframe and on the definition of the review process with auditors. In addition, there was no support for the provision of the range of alternative fair values as it would be costly as well as in contradiction with the identification of the company's best estimate. The current IAS 19 quantitative requirements were also considered to be useful.

On the IFRS 13 panel, she remarked that the panellists had noted that if an entity had many items measured at fair value these disclosures would seem to be difficult to provide. There was also a commercially sensitivity concern to provide granular information as well as a concern on the usefulness of disclosing fair value of loans that are not monitored to be disposed. Also, there were some concerns about the costs and implications of additional senior management review layers (due to the increased use of judgement). From an auditing perspective, it was highlighted the need of having details about the borderline between level 2 and level 3 fair value categories. In addition, the PIR had shown that, from a cost and benefit perspective, the IFRS 13 disclosures were generally working well.

She finally thanked the presenters and panellists, reiterated the call for participants for the field test and closed the meeting.