

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

## **Disclosure Requirements in IFRS Standards**

### **Cover Note**

#### **Objective**

- 1 The objective of the session is to agree to recommend a final comment letter in response to the IASB's exposure draft Disclosure Requirements in IFRS Standards (The ED).

#### **Background**

- 2 On 25 March 2021, the IASB published [the ED](#) with a comment deadline on 12 January 2022. The ED proposed a new approach for the IASB to develop disclosure requirements and test that approach by applying it to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee benefits*.
- 3 The new approach would require entities to comply with:
  - (a) overall disclosure objectives that describe the overall information needs of users of financial statements; and
  - (b) specific disclosure objectives that describe the detailed information needs of users of financial statements.
- 4 The new approach is written as draft guidance for use by the IASB when developing disclosure requirements in individual Standards. In applying this guidance, the IASB aims to:
  - (a) enhance investor engagement to ensure the Board has an in-depth understanding of investors' information needs and clearly explains those needs in the Standards;
  - (b) give greater prominence to the objective of disclosure requirements, requiring companies to apply judgement and provide information to meet the described investor needs; and
  - (c) minimise requirements to disclose particular items of information, and instead to help companies focus on disclosing material information only.
- 5 Stakeholders are invited to provide their views on both the new drafting approach and its application to the two tested standards

#### **EFRAG activities**

- 6 EFRAG published a [draft comment letter](#) on 11 May 2021 which was open for consultation until 04 January 2022.

- 7 In the 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. However, EFRAG noted a number of challenges as the proposed approach introduces a radical change to the way disclosures are being prepared with a higher level of judgement involved. That includes
- (a) operational aspects of the new proposed guidance like lack of minimum requirements,
  - (b) balancing the requirements,
  - (c) comparability,
  - (d) auditability and enforceability.
- 8 EFRAG considered the application of the proposed approach to the two tested standards but concluded that it was not in a position to express definitive views on the proposed changes and their expected effects, until EFRAG has conducted appropriate outreach and field testing.
- 9 Since the publication of its DLC EFRAG has conducted a wide array of activities including:
- (a) A comprehensive field test of the proposals with preparers in close coordination with the IASB staff which results were subsequently discussed at three workshops with small groups of preparers, in the presence of the national standard setters of the countries involved, to discuss the results of the field test and seek additional inputs;
  - (b) Four public events;
  - (c) A survey covering smaller and medium entities applying IFRS;
  - (d) Interviews with auditors of smaller and medium entities;
  - (e) Targeted meetings with different groups of stakeholders.
- 10 Several EFRAG TEG members were involved in the outreach activities throughout the process either as participants in the field test, as observers in the workshops between field test participants, in the workshops with auditors and users; and in the public events.
- 11 All outreach and field-testing activities are listed in the appendix 1.
- 12 At the December 2021 EFRAG TEG meeting,
- (a) members were presented with a comprehensive summary of all the input gathered to date from the field test and outreach activities<sup>1</sup>; and
  - (b) An initial orientation on the approach to the final comment letter were discussed.

#### **EFRAG TEG meeting on 21-22 December**

- 13 EFRAG TEG did not make any decisions at the meeting but provided a number of orientations for the final comment letter

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<sup>1</sup> TEG members received an oral update from the public outreach event on 10 December 2021. The summary report of the event is currently in preparation. It will be finalised and published before 14 January 2022.

*Overall approach*

- 14 Members expressed support for the orientations suggested by the EFRAG Secretariat which essentially reiterated support for the following views:
- (a) Support for 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 closer involvement of users and other stakeholders.
  - (b) The usefulness of introducing overall and specific disclosure objectives and additional guidance to explain why disclosures are required and how they are used by users in making their assessments and decisions.
  - (c) The need to strike the appropriate balance between a tier of disclosures that are always required (to ensure a minimum level of comparability), and objectives to elicit additional entity-specific disclosure.
- 15 Members also made the following comments:
- (a) The final comment letter (FCL) should include, where appropriate, references to the feedback from the field test and other outreach activities. Additional detailed feedback could be incorporated in an Appendix to the final comment letter.
  - (b) The FCL should emphasise that EFRAG's proposed alternative approach would essentially result in retaining the way disclosure requirements are currently developed in most recent standards except for:
    - (i) The addition of specific disclosure objectives in addition to overall ones; and
    - (ii) The more robust drafting approach for the IASB.
  - (c) The FCL should emphasise more the effects of the dynamic nature of users' needs and recommend that the matter be addressed by the IASB. The depiction of users' needs should be broad enough and flexible to capture that dynamic nature.
  - (d) The discussion on Digital Reporting should be better emphasised in EFRAG's comment letter in particular how technology may alleviate the disclosure problem as new technologies may change the way the information is produced and consumed.
  - (e) Emphasise that addressing the disclosure problem will involve the participation of all concerned stakeholders in their respective roles. In particular the influence of users is essential to trigger changes.

*Application to IAS 19*

- 16 Members generally expressed support for the orientations suggested by the EFRAG Secretariat in paper 08-02 which essentially reiterate the views in the DCL.
- 17 In addition, members also noted that the question of the aggregation and disaggregation of the information is crucial. Information about DBP should be granular enough (at each material plan level) to be meaningful.

*Application to IFRS 13*

- 18 Members generally expressed support for the orientations suggested in paper 08-02 which essentially reiterate the views in the DCL.
- 19 In addition, members also noted the following:
- (a) The feedback received from the field test was largely influenced by the activity of the participants from financial institutions being keener to retain sensitivity analysis.

- (b) The FCL could emphasise that disclosure about measurement uncertainties should be done at an appropriate level of granularity: for instance, entities may have very significant individual items (e.g., non-listed investments in unconsolidated entities).

### **Agenda Papers**

20 In addition to this cover note, agenda papers for this session are:

- (a) Agenda paper 04-02 – Summary of feedback received from the DCL consultation and recommendations for the drafting of the FCL
- (b) Agenda paper 04-03 – Proposed Final Comment Letter (mark-up);
- (c) Agenda paper 04-04 – Proposed Final Comment Letter (clean);and
- (d) Agenda paper 04-05 – Annex to proposed EFRAG final comment letter – Summary of outreach and field test.
- (e) Agenda paper 04-06 – Summary report 10 December outreach event (for background purposes)

## Disclosure requirements in IFRS standards – Cover Note

### Appendix A

EFRAG conducted a wide range of outreach and field work activities which are listed below. The activities are presented in chronological order:

Agenda paper 04-05 contains all the summaries of outreaches presented at the December EFRAG TEG meeting

#	Date	Meeting	Objective
1	03/03/2021	CFSS-TEG meeting	To discuss possible field work activities
2	31/03/2021	EFRAG FIWG	To collect views on the proposals on IFRS 13 disclosure requirements
3	14/04/2021	EFRAG PPAP	To collect views on the proposals on IAS 19 disclosure requirements.
4	21/04/2021	EFRAG TEG + User Panel	To collect UP views on the proposals and field work activities.
5	05/05/2021	EFRAG Board	To approve the publication of the DCL.
6	11/05/2021	EFRAG IAWG	To collect views on the proposals.
7	21/05/2021	ESMA	To collect views on the proposals and discuss enforceability challenges.
8	June to July	Meetings with IVSC and Tegova	To collect views on the proposals.
9	02/06/2021	EPRA	To discuss views on the DCL and attract fieldwork participants
10	02/06/2021	ZIA	To discuss views on the DCL and attract fieldwork participants
11	08/06/2021	AON Hewitt	To discuss views on the DCL and attract fieldwork participants
12	10/06/2021	AE	To discuss EFRAG's initial views and issues on auditability
13	16/06/2021	CFSS-TEG meeting	To discuss field testing and how national standard setters can help.
14	18/06/2021	ASCG Catch-up meeting	Informal discussion with staff
15	24/06/2021	Meeting with Auditors	To publish EFRAG's fieldwork and attract participants
16	30/06/2021	<a href="#">EFRAG's public event</a>	Educational event to promote debate (panel discussions).
17	01/07/2021	EEA	To collect views on the proposals and discuss EFRAG's DCL
18	06/09/2021	Discussion Accountancy Europe	Attend discussion on Accountancy Europe comment letter.
19	08/09/2021	CRUF	Attend discussion on CRUF comment letter.
20	September to December	Fieldwork participants	Individual meetings with fieldwork participants to discuss fieldwork results
21	04/10/2021	ESMA	Informal discussion with staff
22	05/10/2021	<a href="#">Outreach Denmark</a>	To collect views on the proposals and discuss EFRAG's DCL. Public meeting.
23	07/10/2021	Outreach Germany	To collect views on the proposals and discuss EFRAG's DCL. Public meeting.
24	10/11/2021	EPRA Update Meeting	To inform EPRA about the fieldwork results of real estate entities.
25	05/11/2021	Workshop with participants (corporates) [Field test]	To discuss fieldwork results among participants.
26	10/11/2021	Workshop with participants (corporates) [Field test]	To discuss fieldwork results among participants.
27	15/11/2021	Workshop with participants (financial institutions) [Field test]	To discuss fieldwork results among participants.
28	16/11/2021	Business Europe	To collect views on the proposals and discuss EFRAG's DCL.
29	18/11/2021	EFRAG Board Meeting	To provide an update of the results of the fieldwork.
30	24/11/2021	European Networking Group (ENG)	To collect views on the proposals and discuss EFRAG's DCL.
31	24/11/2021 and after	Interviews with auditors of small and medium entities applying IFRS	To collect views on the proposals and to discuss 1) readiness of their clients for the proposed approach and 2) impact of the proposals on the audit approach.

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32	24/11/2021	EFRAG TEG CFSS	To provide an update of the results of the fieldwork.
33	29/11/2021	Workshop with EFRAG WG users [Field test]	Discuss field-testing results with users to collect further input.
34	29/11/2021	Workshop with EFRAG WG auditors [Field test]	Discuss field-testing results with auditors, actuaries, and participants to collect further input.
35	30/11/2021	UK Endorsement Team	Informal discussion with staff
36	02/12/2021	EFRAG FIWG Meeting	Present field-testing results for IFRS 13 disclosure requirements and collect participant's input.
37	07/12/2021	EFRAG User Panel	Present field-testing results and collect participant's input.
38	07/12/2021	EFRAG IAWG meeting	Present field-testing results and collect participant's input.
39	08/12/2021	EFRAG Pension Plans Advisory Panel	Present field-testing results for IAS 19 disclosure requirements and collect participant's input.
40	10/12/2021	EFRAG Webinar with IASB (and user organisations)	Present field-testing results and collect participant's input. Public meeting
41	14/12/2021	ESMA meeting	Present field-testing results and collect participant's input.
42	17/12/2021	Moody's meeting	Present field-testing results and collect participant's input.
43	21/12/2021	EFRAG TEG	Present field-testing results and collect input from TEG member about tentative changes of EFRAG's DCL.