

Targeted Standard-Level Review of Disclosure Requirements

IASB's ED Disclosure Requirements in IFRS Standards

28 June 2022



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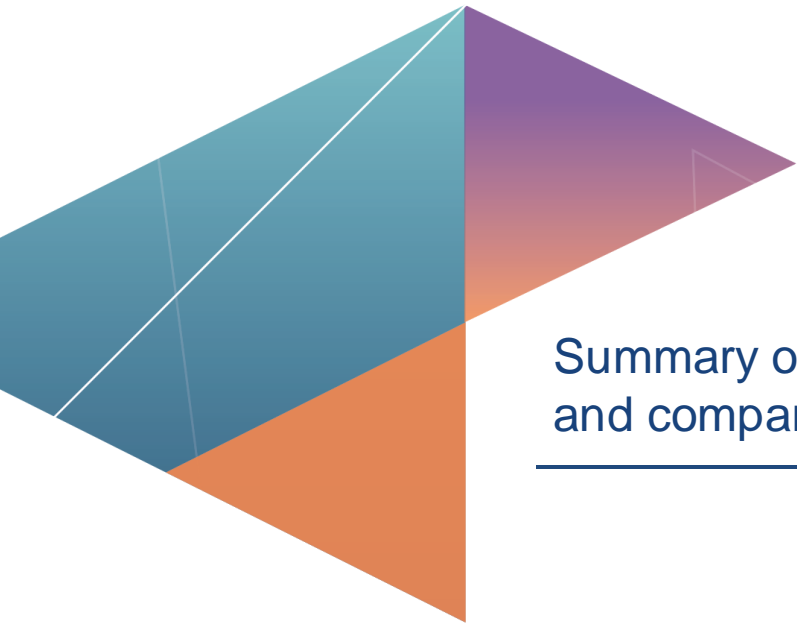
Objectives

The objective of the session is to:

- Present the feedback received by the IASB in response to its public consultation; and
- Seek EFRAG CFSS and FR TEG views on possible way forward.

The IASB will meet the Accounting Standards Advisory Forum to discuss next steps for this project at its July meeting. Input and views expressed by EFRAG CFSS-TEG will be used in that context.

In addition to this slide deck, Agenda paper 11-02 ASAF Agenda Paper 05 TSLR is provided for the session.



Summary of the feedback received by the IASB and comparison with the views in EFRAG's Comment Letter

General approach

Views in EFRAG's comment Letter

- Supported the objective of the project and its focus on the provision of more relevant disclosures - not on changing the volume of disclosures.
- Welcomed the development of a rigorous methodology for disclosures considering the information needs of users.
- However, based on the extensive outreach, field-testing and consultation conducted, EFRAG concluded that the proposed approach may not achieve its intended objective in addressing the disclosure problem; may result in impairing comparability; increasing enforcement and audit challenges; and be more costly for preparers and their auditors.
- Instead, EFRAG suggested an alternative approach and a less radical change to address the disclosure problem, whereby the IASB would combine overall and specific disclosure objectives as well as an application guidance describing users' needs (as proposed in the ED) and providing examples illustrating how to apply judgement to meet users' needs in various circumstances.

General approach

Feedback received by the IASB

Input from 111 respondents. European stakeholders represent half of total respondents.

Feedback consistent with input from field test and outreaches conducted by the IASB and with the views expressed in EFRAG's CL:

- Most considered that disclosure objectives that describe user information needs would help entities provide relevant information. They also welcomed the proposals for the IASB to work closely with users and other stakeholders.
- However, most respondents considered that the proposals would not help solve the disclosure problem. Most expressed the view that the IASB's proposal to use less prescriptive language when referring to items of information would likely make the disclosure requirements difficult to operationalise or enforce.
- Many suggested a 'middle ground' approach in which a disclosure objective will always be accompanied by a list of mandatory items of information that an entity should disclose, if material, to meet the objective.
- Many respondents welcomed the proposals for the IASB to include overall and specific disclosure objectives in disclosure requirements. However, some considered that overall disclosure objectives were too broad to be effective as requirements and should not be mandated but provided as 'non-prescriptive context setting information'.
- Need to consider implications of digital reporting.
- A comprehensive detail of the feedback received by the IASB can be found [here](#)

Proposed Amendments to IAS 19 and IFRS 13

Views in EFRAG's comment Letter

IFRS 13

- Support the overall and specific disclosure objectives except the one relating to 'Alternative Fair Value measurements using reasonably possible assumptions'.
- Field test has provided evidence that introducing specific disclosure objectives is helpful (except AFV) and that the proposed objectives are understandable and could be made operational.
- The IASB should clarify for which instruments further information about Alternative FV should be provided if the requirement is maintained.

IAS 19

- Support for overall objectives and for the specific objectives for DB plans except the specific disclosure objective related to future payments to members of plans that are closed to new members.
- Sensitivity analysis should remain mandatory (discount rate, expected return..) – Providing Information about actuarial assumptions as proposed in the ED is useful but not enough.

For both Standards: clarify transition requirements (adequate implementation timeframe and clarify whether comparative information is always required).

Proposed Amendments to IAS 19 and IFRS 13

Feedback received by the IASB

About half of the 111 respondents to the IASB provided comments on the proposed amendments.

IFRS 13 - For assets and liabilities measured at fair value many respondents:

- Agreed with the proposed overall disclosure;
- Considered that disclosures about movements and uncertainties in fair value measurements should be restricted to L3 measurements, or L2 measurements that are closer to L3; and
- Agreed with the proposed specific disclosure objective and items of information.

Some were concerned that the overall disclosure objective is too generic, and that entities would have to rely on the specific disclosure objectives to determine how user needs should be met.

Some expressed concern about the clarity of the specific disclosure objective for assets and liabilities within each level of the fair value hierarchy.

Some respondents disagreed with the proposal to replace sensitivity analyses for changes in significant unobservable inputs with reasonably possible alternative fair value measurements.

Proposed Amendments to IAS 19 and IFRS 13

Feedback received by the IASB (continued)

IAS 19 - For DB plans respondents generally supported the specific disclosure objectives except for the objective that requires disclosure of future payments to members of defined benefit plans that are closed to new members. They also had some concerns about whether the specific disclosure objective that requires disclosure of the nature of, and risks associated with, defined benefit plans is precise enough to help an entity identify and disclose more relevant information.

Some respondents said the overall disclosure objective is too broad to identify user needs.

Respondents did not support the following items of information:

- (i) Deferred tax asset or liability arising from defined benefit plans;
- (ii) Expected return on the plan assets; and
- (iii) Alternative actuarial assumptions reasonably possible at the end of the reporting period that could have significantly changed the defined benefit obligation

In relation to DB plans some respondents agreed with the proposed overall disclosure objective. A few disagreed with the proposal and suggested retaining current IAS 19 disclosure requirements

Questions to be addressed by ASAF

1. Has the IASB staff correctly analysed the arguments for and against each possible course of action, and the potential next steps?

EFRAG Secretariat's tentative views

The ASAF paper does not consider the advantages and disadvantages of other course of actions :

Keeping overall objectives mandatory

- Whether to apply a middle ground approach only to new Standards or to all Standards?

We observe that:

- In its field test activities EFRAG has not identified that the proposed overall disclosure objectives for the tested standards were too broad to be implemented. Participants considered objectives helpful to fulfill disclosure requirements and to improve the quality of disclosures.
- Some respondents to EFRAG's consultation called for more specific objectives but this was not a majority view.
- Most recently issued standards also contain overall objectives that are part of mandated guidance.

Lastly, we observe that the ASAF paper does not include very high level information about feedback on the two proposed amendments to IAS 19/IFRS 13 (slides 19/20). More granular feedback would have been useful to ASAF to assess whether the Amendments should be finalised and which changes to consider.

2. Do you think a middle ground approach as illustrated (on pages 14–15 of the ASAF paper) would provide a better framework for enabling entities to make effective judgements?

EFRAG Secretariat's tentative views

In its CL, EFRAG suggested that an 'alternative approach' combining objectives and mandated disclosures is better suited to address the disclosure problem.

However, EFRAG's suggested approach differs from the 'middle ground approach' included in page 14 of ASAF paper in that:

- In EFRAG's Approach, overall objectives remain mandatory and were not considered as 'non-prescriptive context setting elements'.
- EFRAG's approach also calls for application guidance describing users' needs (as proposed in the ED) and examples illustrating how to apply judgements to meet user needs in various circumstances'.

3. If the IASB were to terminate the project, is there anything the IASB should do to help address the disclosure problem?

EFRAG Secretariat's tentative views

Many of the suggestions made in EFRAG's comment letter remain valid even if the TSLR project is discontinued:

- Consider whether and how developments in digital reporting may help alleviate the disclosure problem.
- Encourage the IASB to assess the effects of the various initiatives undertaken to foster the exercise of judgement in preparing financial statements (including the revised definition of materiality and the Materiality Practice Statement).
- Consolidate experience from most recently issued Standards which contained objectives for disclosure (IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases).
- To continue engaging with stakeholders on a broad scale, including auditors and regulators is essential.

Questions to be addressed by ASAF

4. Should the IASB further develop the proposed amendments to the disclosure requirements of IFRS 13 and IAS 19?

EFRAG Secretariat's tentative views

- In its Comment Letter, EFRAG recommended that the IASB does not finalise the Amendments as proposed consistent with its suggestion to apply a middle-ground approach.
- To not lose the benefit of the extensive work conducted by the IASB on the two tested standards, EFRAG suggested that that the IASB considers the feedback from its consultation and extensive outreach to identify which items of information should be added to the list of required information.
- It was noted that If the IASB decides to follow EFRAG's suggestions to apply an alternative approach to IAS 19 and IFRS 13, another set of exposure drafts would be necessary to consult on the list of mandated disclosures and its interaction with the overall and specific objectives.

Any other comments?

Does EFRAG CFSS-TEG have any other comments on the presentation or additional message to convey to ASAF?

Topic	<u>Meeting (hyperlinks to meeting papers)</u>
IASB's ED	Exposure Draft: Disclosure Requirements in IFRS Standards—A Pilot Approach (comment deadline changed to 12 January 2022)
Summary report – EFRAG-IASB How it would work in practice? Blueprint for future IFRS disclosures	News - EFRAG
Summary report – EFRAG DI FSR IASB Public webinar (Danish event)	News - EFRAG
Summary report – EFRAG BE IASB joint webinar: What we learnt from the field test with European preparers	News - EFRAG
Field testing feedback statement	News - EFRAG
EFRAG's comment letter	News - EFRAG
EFRAG's feedback statement	News - EFRAG



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Thank you

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