Disclosure Initiative

What have we learned from the field test?

10 December 2021

DISCLAIMER

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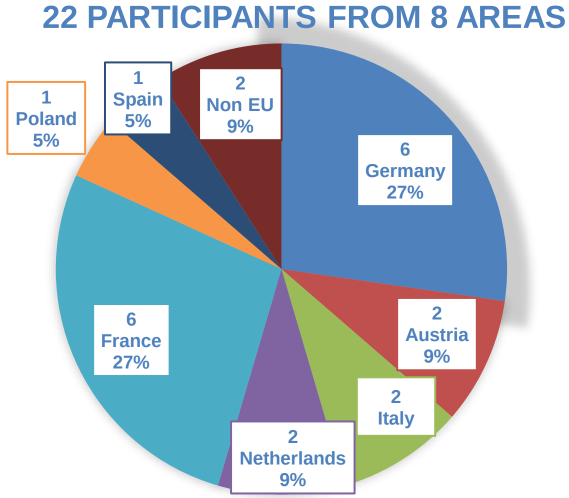
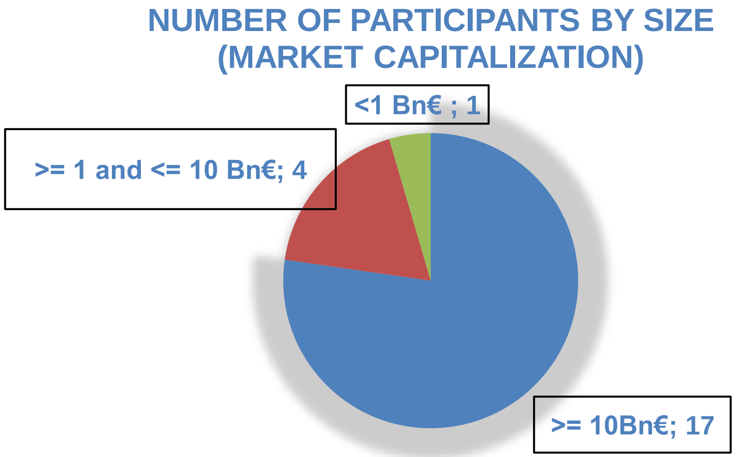
CONTENT

Field test

Field test

In its DCL, EFRAG assessed that field testing the proposals was essential to form a final view on the effects of the proposals in the ED and their applicability.





- **22** companies agreed to prepare **mock disclosure** or provide more **limited input** (questionnaire or interview) for IFRS 13 and/or IAS 19.
- Several industries covered including 8 financial institutions, 3 real estate companies.
- EFRAG and the IASB conducted **3 workshops** with 15 of participants. Also, separate workshops with auditors and users. Meeting with ESMA to follow next week.
- Smaller entities applying IFRS were underrepresented – for this group a different approach was developed (survey + interviews with their auditors)

EFRAG outreach activities

EFRAG outreach activities

Public events:

- 30 June 2021 - EFRAG IASB joint webinar – Targeted disclosures: How would it work in practice?
- 5 October 2021: DI FSR EFRAG IASB public webinar: Disclosure requirements in IFRS (focus on Danish stakeholders)
- 7 October 2021 - ASCG – EFRAG joint public discussion (focus on German stakeholders)

Private meetings:

- EFRAG TEG Working Groups
- Meetings with member organisations like national standard setters
- Meetings with several other constituents (users/ actuaries/ valuators/ regulators/ industrial organisations)

Small medium enterprises applying IFRS:

- Survey – 45 responses with 30 from Poland. Also Spain, Bulgaria, France, Belgium, Germany, Malta and Norway
- Interviews with auditors (to reflect on the positions of their clients and the audit approach)

General approach

EFRAG's Draft Comment Letter

Overall assessment

- EFRAG supports the objective of the project and welcomes the development of a rigorous methodology for disclosure requirements
- Developing and testing such an approach has merits and should be encouraged as we support the reduction of detailed disclosure checklists
- EFRAG supports to work more closely with users early in the process to understand what information they need, and how it is intended to be used
- Explanation of the relationship between individual disclosure objectives and the concept of materiality needed
- EFRAG invites the IASB to explain whether and how the objectives serve the stewardship objective of financial reporting
- EFRAG encourages the IASB to further consider the interaction between the proposals in the ED and the increased use of digital reporting

EFRAG's Draft Comment Letter

Key question to constituents

Do you agree that the IASB only mandates the overall and specific objectives for each IFRS Standard, or do you consider that the IASB should also mandate a list of minimum disclosure requirements necessary to meet the disclosure objectives?

- The proposed approach makes minimum requirements an exception
- With a higher level of judgement, the proposals will likely create implementation challenges and tensions with comparability
- The success of the proposed approach depends on the IASB striking the correct balance between a tier of disclosures that are always required (that ensure a minimum level of comparability), and objectives to elicit additional entity-specific disclosures
- Absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing. It would also make review of such disclosures and enforcement of the requirements more difficult for auditors and regulators and may ultimately not lead to the intended changes and improvement to information relevance

General approach

Fieldwork - Main messages heard:

Outcome of the fieldwork

- Participants generally identified limited and targeted changes; including information that was not previously provided, enriching existing information, exclusion of specific information and/or restructuring of the information. These participants prepared the mock disclosures by comparing the existing disclosures to the provisions in the ED. (building mock-up disclosures)
- Participants generally had no specific dialogue with users to prepare the mock disclosures, some considered previous questions received by analysts, and some don’t expect additional dialogue going forward. (building mock-up disclosures)

Positive aspects

- The disclosure objectives were welcomed by all participants. They make the requirements understandable. Objectives help in deciding about the appropriate level of information to disclose in an appropriate structure and to reduce or add some of the information. They are a basis for a discussion with the auditors.
- The disclosure objectives in the ED were generally considered understandable by participants in the field test and they did not raise major questions to EFRAG/IASB staff.

General approach
Fieldwork - Main messages heard:

Positive aspects (cont.)

- The proposed approach allows entities to present information on specific circumstances or items that would be useful. This encourages entities to evaluate the importance of disclosed information and give them the opportunity to substantially reorganise it.
- Especially financial institutions identified the need for a dialogue with the regulators. Some of the disclosures are not material even if requested by regulators. The ED can create the opportunity for an open discussion.

Downsides

- The proposals will bring more subjectivity and a higher level of judgement involved. Thus, it may lead to a lack of comparability.
- The detailed list of non-mandatory disclosures (list of items of information) may be interpreted as a new checklist comprising information that can be omitted only if quantitively immaterial.
- The proposed approach might be challenging from an operational point of view (application of judgment). More guidance may be necessary.
- Large groups need to collect all potential information from their subsidiaries. Judgement need to be applied at group level.

General approach

Fieldwork - Main messages heard:

Costs of the proposals

- Entities generally did not identify fundamental changes to their systems and processes.
- The approach may require additional discussions with the auditor and enforcement bodies when it comes to the exercise of judgement which will lead to unexpected costs and additional work burden. A few field test participants did not anticipate difficulties with its auditors.
- The judgement involved needs to be documented. Some participants considered the approach therefore more costly. A few see no additional efforts and therefore costs from the new approach.
- In this context the consolidation process and its challenges was mentioned. Some remarked that an 'internal check list' would still be necessary to send the instructions to the subsidiaries. It was remarked the judgment on relevance of information and materiality cannot be delegated to a lower level. In order to assess on group level what is material detailed information from subsidiaries needs to be collected (which can be costly).

General approach
Fieldwork - Main messages heard:

Way to go forward - Alternative view

- Several participants requested minimum disclosure requirements (similar as expressed as alternative view from some IASB Board members and similar to the EFRAG DCL). Some others were satisfied with the approach and the possibilities offered by the objective-based approach to disclose entity specific information.

Messages heard from the smaller entitities applying IFRS

- 87% responded - yes, it can help - on the question: Do you consider that the IASB should, besides requiring to meet disclosure objectives, also mandate a list of minimum disclosure requirements necessary to meet the disclosure objectives?

General approach

User workshop - Main messages heard:

- Difficult ensure comparability across entities and over periods with a pure objective based approach as it is included in the ED. If there is no consistency in time users can't use disclosures effectively.
- Therefore, keep minimum disclosures while introducing objectives and other material explaining why the disclosures are needed is the best option. Some noted that only a minimum of prescribed disclosures should be required.
- Disclosure objectives are useful as they may encourage entities to disclose entity specific information that they are not disclosing with the current approach. They may also provide a 'legal' basis to help auditors and enforcers to require additional information beyond the minimum checklist.
- Conversely having only minimum list may result in entities sticking to the list and not providing supplementary disclosures.
- Better guidance on the application of materiality to disclosures would be useful.
- Disclosures made on a voluntary basis by some companies may become 'best practices' overtime and may be integrated in the minimum list over time.

General approach

Auditor workshop - Main messages heard:

- Including a minimum list of disclosures provides a better basis for auditability and enforceability in case a piece of information is not disclosed.
- Minimum disclosures also important for preparers from operational and efficiency standpoints, as preparers need internal checklists to gather information internally in a structured way.
- Some suggested that the standards should focus on some ‘core’ disclosures to ensure a minimum level of standardisation and comparability. Beyond that, the application of materiality judgements and the consideration of disclosure objectives would help identify additional entity specific disclosures.
- Some noted the ‘catch-all’ disclosure objective introduced in IFRS 16 Leases to help preparers identify additional disclosures beyond minimum requirements.
- Some suggested that it would be more effective to develop guidance aiming at helping entities make materiality judgements on disclosures.

Questions specific to IFRS 13 proposals

EFRAG
European Financial Reporting Advisory Group

Proposed changes to IFRS 13

Topic	EFRAG position	Assessment
Approach	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	✓
Sensitivity disclosures L3	More pertinent than alternative fair values. EFRAG is also concerned about trade-off between costs and benefits and increasing the burden on preparers significantly	!
Question to constituents	Do you agree with the EFRAG position that the proposal on the provision of alternative fair values is too burdensome and raises issues of understandability, or do you consider that the benefit to users would outweigh the costs? Do you have any alternative proposals to provide information that would allow users to evaluate the possible outcomes of the fair value measurements at the end of the reporting period?	?
Mandatory items	EFRAG agrees with these proposals	✓
Judgement	Significant judgements and assumptions are useful as entities should have some flexibility to determine the form and level of disclosure that best meets users' needs. Level of judgement must not be so high that it may impair the level of relevance, reliability and comparability of the information. Therefore, EFRAG recommends to the IASB to investigate further the practical application of the disclosure requirements.	!

Feedback from preparers

General

- No major changes, mainly restructuring of the information (specifically for FI), some additions; some topics were discussed like reduced reference to FVH

Alternative fair value measurements

- Some expected no changes as the current sensitivity disclosures would meet the ED's requirement
- Overstating exposure where gross information is provided for exposures managed on a net basis

Reduced reference to the FVH

- None provided AFV information for L2.
- Anticipated difficulties if AFV or similar information is extended to L2 given the manual process for L3.
- Some FIs considered that reconciliation between trade view and IFRS would be more challenging if L2 is included.
- Some considered that even if current levels of detail provided is sufficient (i.e., less for L2 and almost none for L1), auditors may require further disclosures.

Feedback from users/auditors

Alternative fair value measurements

- Preference for sensitivity disclosures rather than alternative fair values

Reduced reference to the FVH

- No general support for measurement uncertainty information for L2
- One user considered this important information and thought that large banks should be able to assess the measurement uncertainty for level 2 and 3 on an ongoing basis

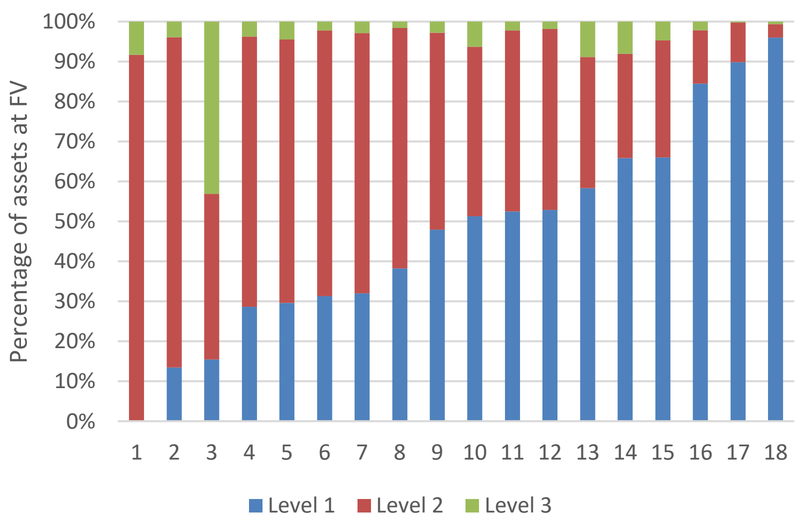
QUESTIONS SPECIFIC TO IFRS 13 PROPOSALS

Reduced reference to fair value hierarchy

EFRAG Secretariat analysis: 18 EU banks (amounts in EUR bn)

	FV assets	L1	L2	L3
Total	3,748	1,572	2,018	117
% of assets carried at fair value		42%	54%	3%

FVH distribution of 18 major European banks %



Selected statistics based on %:

	Level 1	Level 2	Level 3
Standard deviation	27	25	10
Minimum	0	3	0
Mean	47	47	6
Median	50	45	3
Maximum	96	92	43

Questions specific to IAS 19 proposals

Proposed changes to IAS 19

Topic	EFRAG position	Assessment
Approach	Overall and specific disclosure objectives are useful to understand the information needs of users	✓
Nature of defined benefit plans	EFRAG notes that this is not defined. This may lead to increasing narrative information without substantial improvement.	!
Benefits and costs	As for other sections, EFRAG is unable to assess whether benefits will outweigh the costs of the proposals and will obtain this information through a field test.	?
Sensitivity analysis	Current requirement proposal to be replaced with a broader objective that requires information that enables users of financial statements to understand the significant actuarial assumptions used. While this information is costly, it is also useful to users, therefore EFRAG considers that this should be mandatory.	!
Question to constituents	Do you agree with the IASB's proposal that benefits provided by the current sensitivity analysis would not outweigh the cost to entities of providing that information and, therefore, should not be required?	?

Proposed changes to IAS 19

Topic	EFRAG position	Assessment
Defined contribution plans	EFRAG expected additional disclosure requirements to reflect certain risks especially around hybrid plans.	!
Other employee benefits	EFRAG agrees with the overall disclosure objective for these types of benefits (short-term, other long-term and termination benefits)	✓
Multi-employer plans	Compliance with overall disclosure objective is insufficient to communicate the risks, therefore EFRAG agrees with the proposed specific objectives	✓

IAS 19

Preparers

- DBO measurement uncertainties
- Expected future cash flows
- Nature of benefits and risks of DBs
- Other employee benefits

- No major changes – fresh look on the requirements, some specific additions and enriching or restructuring previous information
- Sensitivity analysis still preferred
- Usefulness of some non-mandatory items?
- Usefulness of future payments to DBP that are closed to new members
- Need clarity on what nature of 'cash flow effects means'
- One participant would add "Quantitative information about expected future contributions to meet the defined benefit obligation recognised at the end of the reporting period" and "Information about the expected pattern or rate of expected future contributions"
- Clarity can be improved. Current disclosures may be sufficient on risks of DBs
- Usefulness of expected return on assets?
- Objectives for other employee benefits too generic; may result in boilerplate information.
- Additional guidance may be necessary for example where termination benefits consist of lump sum payments

IAS 19

Auditors and users

- DBO measurement uncertainties
- Expected future cash flows
- Nature of benefits and risks of DBs
- Other employee benefits

- Users concurred with usefulness of sensitivity analyses (e.g., discount rate) as information about assumptions only allow comparison, but not estimation of impacts under alternative assumptions
- Auditors were also supportive of sensitivity analysis. One considers it as mandatory to meet the disclosure objective
- Mixed support from users about alternative actual assumptions, changes in assumptions and how assumptions determined. Concern about 'second guessing' assumptions
- Users considered that cash flows (either to the plan or to the pensioners) was helpful (especially credit analysts)
- Users found expected rate of return (with historical performance) to be useful. Sensitivity analysis about the expected rate of return was also important.
- 'description of the policies and processes used by the entity or the trustees or managers of the plans to manager the identified risks" – no similar disclosure requirement in other standards

Open Consultations

Comments on EFRAG draft comment letter

EFRAG's draft comment letter is available here on EFRAG's website: www.efrag.org

Comment deadline: 4 January 2022

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Thank you

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