

## IFRS Developments

# New guidance for developing disclosure requirements

### What you need to know

- ▶ On 8 March 2023, the IASB announced that it concluded its project Targeted Standards-level Review of Disclosures.
- ▶ As a result of completing the project, the IASB published guidance for developing and drafting disclosure requirements in IFRS Accounting Standards.
- ▶ The IASB confirmed that it will not proceed with the amendments to IFRS 13 and IAS 19 proposed as part of the pilot component of the project.

### Introduction

On 8 March 2023, the International Accounting Standards Board (the IASB or the Board) announced that it concluded its Targeted Standards-level Review of Disclosures project aimed at improving its approach for developing and drafting disclosure requirements in International Financial Reporting Standards (IFRS) Accounting Standards. In the Exposure Draft (ED) the Board applied the approach to propose amendments to the disclosure requirements of IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*. Having considered the feedback received in response to the ED, the Board decided not to proceed with the proposed amendments to IFRS 13 and IAS 19.

### Background

To enhance communication in financial reporting and explore how disclosures in IFRS financial reporting can be improved, the IASB has made 'Better Communication in Financial Reporting' a central theme of its standard-setting activities in recent years. The Disclosure Initiative is part of the IASB's Better Communication theme into which the Targeted Standards-level Review of Disclosures project was added as a separate project. The purpose of this project was to develop guidance that would help improve the way the Board drafts disclosure requirements in IFRS Accounting Standards and to perform a targeted standards-level review of disclosure requirements. The Board issued the ED in March 2021.

The intention was to replace a checklist approach with a more objective-defined approach.

## Key proposals of the ED

The ED included new guidance for the Board to rely upon with the purpose of developing the proposed disclosure requirements. The intention was to replace what was often applied as a checklist approach with a more objective-defined approach to disclosure requirements.

The ED also included proposed amendments to IFRS 13 and IAS 19 - the pilot part of the proposal. The Board applied the proposed guidance to setting disclosure requirements in these two accounting standards. The Board chose IFRS 13 and IAS 19 because they are both considered to contain many of the issues that highlight the need to improve the approach to developing disclosure requirements, and also because the Board considered that these two standards would benefit from a review of the current disclosure requirements.

## Outcome of the redeliberations

The improved approach to developing and drafting disclosure requirements as set out in the proposed new guidance in the ED received widespread support from feedback providers. In response to the feedback, the IASB decided to adopt the method proposed in the ED, although it did not pursue certain elements of the proposal.

The guidance relies on three components of disclosure requirements: the "Overall disclosure objective"; the "Specific disclosure objectives"; and a description of "Items of information" that satisfy the specific disclosure objectives. The Board expects that such an approach will require greater judgement by preparers, in order to determine which information is material and whether it satisfies the disclosure objectives.

The IASB decided to adopt the approach proposed in the ED.

The overall disclosure objectives focus on the needs of users and are intended to provide the context and considerations that entities should contemplate when applying the specific disclosure objectives. The specific disclosure objectives describe the more detailed information needs of users and are intended to strike a balance between entity-specific information and information that will allow for comparison between entities. However, the guidance states that judgement is required in the determination of the material information that needs to be disclosed. Items of information will be required, subject to materiality, to satisfy a specific disclosure objective. Some or all items of information specified in an accounting standard are disclosed by an entity, and in some cases, additional items of information that have not been specified may also be required to meet the specific disclosure objectives. The Board's aim is to ensure a link between each objective and the items of information that an entity should disclose to assist entities in making judgements about what information is material.

The main characteristics of the approach applied in the guidance relate to the following:

- ▶ Understanding the information needs of users through early engagement with them
- ▶ Developing requirements for recognition and measurement at same time as disclosure requirements
- ▶ Considering the digital reporting implications of new disclosure requirements
- ▶ Describing and explaining the information needs of users by reference to both general and specific disclosure objectives
- ▶ Requiring entities to disclose items of information that would satisfy specific disclosure objectives

The guidance may be subject to updates, as and when needed, according to the IASB's experience of developing and drafting disclosure requirements across different projects, as well as its understanding of the effects of applying those requirements.

#### **Feedback and outcome for the pilot proposals - IFRS 13 and IAS 19**

Based on the feedback received, the Board decided not to proceed with the proposals to amend IFRS 13 and IAS 19. This decision was based on an assessment that the proposals were not considered to be sufficiently effective in improving the disclosures provided by entities for fair value measurements and employee benefits. Moreover, neither of these standards were identified as priorities in the IASB's Third Agenda Consultation concluded in 2022.

### **Finalisation of the guidance**

The new guidance was published on the IFRS Foundation's website in March 2023 and is available to the IASB to use for the development of disclosure requirements in future standard-setting activities. The guidance is intended to help the IASB in developing and drafting disclosure requirements in IFRS Accounting Standards. The ultimate aim of the guidance is that it will allow the IASB to develop disclosure requirements that will ensure that entities provide useful information to the users of financial statements.

#### **How we see it**

The new guidance published by the IASB is a step towards more targeted and robust development of disclosure requirements that affect the entire range of IFRS Accounting Standards.

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EYG No. 002574-23Gbl

ED None

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