

IFRS Developments

Disclosure requirements in IFRS Standards - a pilot approach

What you need to know

- ▶ The IASB proposes standard-specific disclosure objectives to better meet the information requirements of users.
- ▶ The ultimate goal is to provide overall disclosure objectives which are supported by specific disclosure objectives and items of information for specific IFRS Standards.
- ▶ As a pilot approach, the ED includes a proposal to amend IFRS 13 and IAS 19. Similar proposals are planned for other standards, if the feedback on the proposal is supportive.
- ▶ The comment period for the ED ends on 21 October 2021.

Highlights

On 25 March 2021, the International Accounting Standards Board (the IASB or the Board) issued an Exposure Draft ED/2021/3, *Disclosure Requirements in IFRS Standards - A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)* (the ED), in which the Board proposes guidance for its own use when developing and drafting disclosure requirements in IFRS Standards. In its pilot application of the guidance, amendments to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* are proposed. The ED, which is part of IASB's Disclosure Initiative project, proposes a more standard-specific focus on disclosure requirements than those currently in the *Conceptual Framework for Financial Reporting* (Conceptual Framework) and IAS 1 *Presentation of Financial Statements*. The Board is aiming to address the concern about the current disclosures in financial statements, which is sometimes referred to as "disclosure overload", "disclosure ineffectiveness" or, as described in the ED, the "disclosure problem". If the pilot is successful, the intention is to develop similar proposals for other IFRS Standards.

The proposed guidance

The ED is broader than the proposed amendments to the two above-mentioned standards - the pilot part of the proposal - as it also includes new guidance that the Board has relied upon for the purpose of developing the proposed disclosure requirements. The guidance is ultimately intended only for internal use by the Board, but in the ED, the Board invites comments on whether the proposed guidance would be fit for purpose.

The Board's intention is to replace what some perceive as a checklist approach with a more objective-defined approach to disclosure requirements. Compliance with the disclosure objectives will be facilitated by a combination of specific mandatory requirements, subject to materiality, as well as other non-mandatory specific

requirements, often presented as examples of how the disclosure objectives may be met. More specifically, the proposed guidance relies on a hierarchy of disclosure requirements, starting with “Overall disclosure objectives”, supplemented by “Specific disclosure objectives”, which again are supplemented by mandatory and non-mandatory “Items of information”. It is worth noting that, under current standards, there are instances in which overall and specific disclosure objectives are already included, as well as items of information in nature similar to those proposed in the ED. The Board expects that this approach to setting disclosure requirements will require more judgement on behalf of preparers, in order to determine which information is material and whether it satisfies the disclosure objectives.

Overall disclosure objectives

Overall disclosure objectives will focus on the needs of users, but will be narrower and more specific to the scope of the standards than those in the Conceptual Framework and IAS 1.

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Specific disclosure objectives

Specific disclosure objectives will describe the more detailed information needs of users. Entities will be required to provide information that facilitates the meeting of the specific disclosure objectives in order to meet the information needs of users. The Board acknowledges that judgement will be required in the determination of the information that needs to be disclosed. The specific disclosure objectives will attempt to strike a balance between entity-specific information and information that will allow for comparison between entities. The mandatory items of information will assist in achieving comparability across entities.

Items of information

Certain items of information will be mandatory, subject to materiality, while other items of information will be presented as examples of items of information that may facilitate the meeting of the specific disclosure objectives. In identifying specific disclosure objectives, the Board intends to ensure that there is a link between each objective and the items of information that an entity should disclose. The aim is to assist entities in making judgements about what information is material. An important aspect of the Board’s proposed approach is that, in some circumstances, additional items of information beyond those listed in the standard may be required in order to achieve the overall and specific disclosure objectives.

How we see it

The proposed guidance follows a structure in which the specific disclosure objectives are derived from the overall disclosure objectives, and the items of information are derived from the specific disclosure objectives. As such, the proposed guidance follows a logical structure. However, the real test is whether the approach allows for enhanced disclosure effectiveness in practice.

The pilot proposals - IFRS 13 and IAS 19

The pilot approach component of the ED is the Board’s application of the proposed guidance to setting disclosure requirements in IFRS 13 and IAS 19. The Board chose these two standards for the pilot because they both are considered to contain many of the issues that highlight the disclosure problem and also because the Board was of the view that these two standards would benefit from a review of the current

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Proposed amendments to IFRS 13

Overall disclosure objective

The proposed amendments to IFRS 13 suggest an overall disclosure objective that, “an entity shall disclose information that enables users of financial statements to evaluate the entity’s exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition” (paragraph 100). This information is intended to enable users to understand the significance of the classes of assets and liabilities on the entity’s financial position and financial performance, how fair value measurements have been determined and how changes could affect the entity’s financial position.

Specific disclosure objectives and items of information

The proposals include several specific disclosure objectives and items of information intended to ensure compliance with the overall disclosure objective, including specific disclosure objectives requiring information:

- About the amount, nature and other characteristics of assets and liabilities measured at fair value after initial recognition and how those characteristics relate to the categorisation of assets and liabilities in the fair value hierarchy
- That enables users to understand the significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities measured at fair value after initial recognition
- For recurring fair value measurements, that will allow users to understand alternative fair value measurements, using inputs that were reasonably possible at the end of the reporting period
- About the reason for changes in fair value measurements

For assets and liabilities not measured at fair value, but for which the fair values are disclosed in the notes, disclosure of “the amount, nature and other characteristics of each class of assets and liabilities not measured at fair value but for which fair value is disclosed in the notes and how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy” would be required (paragraph 118).

For each of the specific disclosure objectives, the proposal includes items of information to assist preparers in identifying specific disclosures that would be required to meet the objectives or, alternatively, examples illustrating ways to meet them.

Proposed amendments to IAS 19

The proposed amendments to IAS 19 would impact the disclosure requirements of short-term employee benefits, post-employment benefits such as defined contribution plans and defined benefit plans, other long-term employee benefits, and termination benefits.

The requirements applicable to defined benefit plans are more comprehensive, and for the purpose of illustrating how the proposed guidance is applied to IAS 19, the following will only address the proposed disclosure requirements applicable to defined benefit plans.

Overall disclosure objective

The overall disclosure objective for defined benefit plans is that an entity shall disclose information that enables users to “assess the effect of defined benefit plans on the entity’s financial position, financial performance and cash flows and evaluate the risks and uncertainties associated with the entity’s defined benefit plans” (paragraph 147A). To meet this objective, it is proposed that the information should be either aggregated or disaggregated considering the nature, risks and other characteristics of the obligation. The entity should also make an assessment of whether to distinguish plans or groups of plans with different risks for the purpose of determining which disclosures should be made.

Specific disclosure objectives and items of information

The proposal includes several specific disclosure objectives and a number of items of information intended to ensure compliance with the overall disclosure objective, including specific disclosure objectives requiring information:

- That allows users to understand the amounts and the components of the amounts presented in the primary financial statements
- About the nature and the risks associated with the defined benefit plan to allow users to understand the nature of the benefits, the nature and extent of the risks – particularly investment risks and how the entity manages the defined benefit plans and the identified risks
- About the impact of the defined benefit obligation on the future cash flows of the entity
- That enables users to understand the period over which payments will continue in closed plans
- Relating to actuarial assumptions, including information about the sources of measurement uncertainties in the calculation of the defined benefit obligation
- About changes in the amounts defined benefit plan’s assets and obligations presented in the balance sheet

For each of the specific disclosure objectives, the ED includes items of information to assist preparers in identifying specific disclosures that would be required to meet the objectives or, alternatively, examples illustrating ways to meet them.

Next steps

The comment period ends on 21 October 2021.

How we see it

Some of the Board’s members voted against the ED, as they are concerned that the proposed guidance would not solve the identified disclosure problem. Specifically they are concerned that it would increase enforcement challenges, increase preparers’ efforts and reduce comparability.

As such, we encourage stakeholders to provide feedback to the IASB in the form of comment letters, to contribute to a well-grounded and robust discussion when the Board considers making final amendments to the requirements. Given this is a pilot approach, which is intended to be applied to other standards, the proposals in the ED should be of interest to all relevant stakeholders, including preparers, users, auditors and regulators.

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ED None

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