IFRS

STAFF PAPER

June 2018

IASB Meeting

Project	**Disclosure Initiative: Targeted Standards-Level Review of Disclosures**
Paper topic	Selecting Standard(s)

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Objective

1. The objective of this paper is to summarise the work performed by the staff relating to the selection of one or two Standards for the Board's targeted Standards-level review of disclosures (targeted Standards-level review). In this paper, we provide an analysis of the feedback received on a shortlist of Standards the staff think the Board should consider for the targeted Standards-level review.

2. This paper does not ask the Board to make any decisions. Instead, the paper is intended to:

   (a) provide information to the Board in advance of upcoming consultative group meetings on this topic (see paragraph 3); and

   (b) give Board Members an opportunity to provide thoughts or advice to the staff about any additional analysis they would like to see before selecting the Standard(s) for review.

3. Over the next month, the Board is discussing this topic with three of its consultative groups (Global Preparers Forum, Capital Markets Advisory Committee and Accounting Standards Advisory Forum). In light of those consultations, and the analysis presented in this paper, the staff plan to ask the Board at its July 2018 meeting to decide which Standard(s) it would like to select for review.

Overview

4. This paper is structured as follows:

   (a) Background (paragraph 5);

   (b) Shortlisted Standards (paragraphs 6-9);

   (c) Summary of all feedback received on the shortlisted Standards (paragraphs 10-13);

   (d) IAS 7 *Statement of Cash Flows* (paragraphs 14-17);

   (e) IAS 12 *Income Taxes* (paragraphs 18-28);

   (f) IAS 16 *Property, Plant and Equipment* (paragraphs 29-33);

   (g) IAS 19 *Employee Benefits* (paragraphs 34-41);

   (h) IAS 21 *The Effects of Changes in Foreign Exchange Rates* (paragraph 42);

   (i) IFRS 2 *Share-based Payment* (paragraphs 43-52);

   (j) IFRS 3 *Business Combinations* (paragraphs 53-57);

   (k) IFRS 8 *Operating Segments* (paragraphs 58-63);

   (l) IFRS 13 *Fair Value Measurement* (paragraphs 64-70); and

   (m) Appendix A—Extracts from disclosure requirements in IFRS Standards.

Background

5. Many respondents to the March 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper (Discussion Paper) said that Standards-level activity would be the most effective way that the Board could contribute to addressing the disclosure problem. At its March 2018 meeting, the Board decided to select one or two Standards on which to perform a targeted Standards-level review (see ***Agenda Paper 11B***).

Shortlisted Standards

6. When deciding which Standard(s) to select for the targeted Standards-level review, we think it is important to keep in mind that the objectives of the review are twofold:

   (a) improve the disclosure objectives and requirements in the selected Standard(s), so that applying them provides information that is more useful to the primary users of financial statements; and

   (b) test and improve the Guidance for the Board (see ***Agenda Paper 11B***). To make this process as effective as possible, we think it is important that the selected Standard(s) are representative of broader disclosure issues that have been identified as part of the Principles of Disclosure project.

7. Consequently, the staff considered three main sources of feedback in identifying a shortlist of Standards that the Board could select for the targeted Standards-level review. These were:

   (a) comment letter feedback on the Discussion Paper. Question 15 in the Discussion Paper asked stakeholders to provide examples of where drafting of disclosure requirements in the Standards could be improved and why. Some respondents identified specific Standards and the related disclosure issues in their response;

   (b) feedback received from users of financial statements through the investor outreach activities relating to the Discussion Paper (see ***February 2018 Agenda Paper 11B***); and

   (c) feedback from meetings with some of the Board's consultative groups since the Discussion Paper was published. This included the Accounting Standards Advisory Forum meeting in December 2017 and Global Preparers Forum meeting in March 2018.

8. Based on this feedback, the staff initially identified 14 Standards for which stakeholders had suggested improvements to the disclosure requirements. This initial list included the following Standards that the staff believes the Board should *not consider* for purposes of the targeted Standards-level review:

(a) recently issued Standards. The staff think that reviewing the disclosure requirements of these Standards at this time might disrupt the process of developing practice during implementation:

(i) IFRS 15 *Revenue from Contracts with Customers*, which became effective for annual periods beginning on or after 1 January 2018;

(ii) IFRS 16 *Leases*, which will become effective for annual periods beginning on or after 1 January 2019; and

(iii) IFRS 7 *Financial Instruments: Disclosures.* Although not recently issued itself, this Standard is closely related to IFRS 9 *Financial Instruments,* which became effective for annual periods beginning on or after 1 January 2018.

(b) Standards for which the Board is scheduled to undertake a Post-Implementation Review (PIR) within the next few years. These Standards are IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations.* The staff believe reviewing the disclosure requirements of these Standards at this time might undermine the PIR process. However, the staff plan to share the feedback received on the disclosure requirements of these Standards with the PIR teams[1].

9. In light of the feedback described in paragraphs 7-8, the staff narrowed the initial listing to a shortlist of nine Standards that we think the Board should consider as potential candidates for the targeted Standards-level review:

IAS Standards		
IAS 7	*Statement of Cash Flows*	paragraphs 14-17
IAS 12	*Income Taxes*	paragraphs 18-28
IAS 16	*Property, Plant and Equipment*	paragraphs 29-33
IAS 19	*Employee Benefits*	paragraphs 34-41
IAS 21	*The Effects of Changes in Foreign Exchange Rates*	paragraph 42
IFRS Standards		
IFRS 2	*Share-based Payment*	paragraphs 43-52
IFRS 3	*Business Combinations*	paragraphs 53-57
IFRS 8	*Operating Segments*	paragraphs 58-63
IFRS 13	*Fair Value Measurement*	paragraphs 64-70

[1] The Board is also scheduled to undertake a PIR of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements.* However, feedback received (see paragraph 7) did not identify disclosure issues for these Standards

Summary of all feedback received on the shortlisted Standards

10. In addition to feedback received from the focus areas described in paragraph 7, the staff reviewed the following for the shortlisted Standards:

    (a) staff papers from previous activities the Board has undertaken;

    (b) staff papers summarising feedback from outreach conducted during the two phases of PIRs for Standards that have gone through the PIR process;

    (c) the report and feedback statement on completed PIRs; and

    (d) Company Reporting common practices reports.

11. In this paper, the staff have included relevant details from areas described in paragraphs 10(a)-(c) for each of the shortlisted Standards. This is because we think it might be useful for the Board to understand the extent to which it has previously considered or amended the disclosure requirements of these Standards.

12. The staff categorised all disclosure issues identified on the shortlisted Standards into four broad categories. These categories are as follows:

    (a) *Category A: issues related to disclosure objectives*—this category includes feedback relating to a lack of, or insufficient, disclosure objectives;

    (b) *Category B: issues related to disclosure requirements*—this category captures many specific issues raised, including:

        (i) duplicative disclosure requirements;

        (ii) lengthy or excessive disclosure requirements;

        (iii) disclosure requirements that are costly to produce;

        (iv) disclosure requirements that are not useful;

        (v) missing or incomplete disclosure requirements; and

        (vi) disclosure requirements that are difficult to understand;

    (c) *Category C: issues related to how disclosure requirements are communicated*—this category includes feedback relating to the use of prescriptive language (such as ‘shall disclose’ or ‘as a minimum’) and references to ‘encouraged’ disclosures; and

(d) *Category D: issues related to the adequacy of information provided in financial statements*—this category includes feedback relating to disclosures in financial statements that are either not enough, or are excessive, and the use of boilerplate language. This feedback primarily came from users of the financial statements.

13. The feedback received is summarised in Table 1 below. This table includes disclosure issues identified through the focus areas described in paragraph 7 and the additional activities described in paragraph 10. The staff note that:

(a) the absence of a piece of feedback for a particular Standard does not definitively mean that the identified issue does not arise in that Standard—it only means that we have not received explicit feedback to that effect; and

(b) the feedback described in paragraph 14-70 includes varying levels of detail. This paper summarises all of the information we have to date about these Standards to help the Board make an informed decision about which Standard(s) it would like to review. When the Board has made that decision, the staff envisage performing a substantial outreach programme with users and other stakeholders related to the disclosure requirements of the selected Standard(s) (see ***Agenda Paper 11C***).

Table 1: High-level summary of feedback received from stakeholders on disclosure issues for the shortlisted Standards

Category	Description	IFRS 2	IFRS 3	IFRS 8	IFRS 13	IAS 7	IAS 12	IAS 16	IAS 19	IAS 21
A	Issues related to disclosure objectives[2]		✓		✓	✓				
B	Issues related to disclosure requirements									
B1	Duplicative				✓	✓			✓	
B2	Lengthy	✓	✓		✓				✓	
B3	Costly to produce		✓		✓					
B4	Not useful				✓	✓			✓	
B5	Incomplete	✓	✓	✓	✓		✓	✓	✓	
B6	Difficult to understand			✓	✓		✓		✓	
C	Issues related to communicating the disclosure requirements[3]	✓	✓		✓	✓	✓			
D	Issues related to the adequacy of information provided in financial statements	✓	✓	✓	✓	✓	✓		✓	✓

[2] Most of the IAS Standards identified for consideration do not contain disclosure objectives (IAS 7 and IAS 19 only contain disclosure objectives for a specific aspect of their disclosure requirements). All the IFRS Standards identified for consideration do contain disclosure objectives.

[3] Respondents to the Discussion Paper, including those that did not specify a particular Standard, generally identified prescriptive language *across the Standards* as a contributing factor to the disclosure problem.

IAS 7 *Statement of Cash Flows*

Previous Board projects relating to the disclosure requirements of IAS 7

14. The Board has recently amended IAS 7 through the Disclosure Initiative. This amendment required entities to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This was in response to feedback received, including from the users of financial statements, that such improvement might reduce clutter in financial statements by specifying how debt information should be disclosed. These amendments became effective for annual periods beginning on or after 1 January 2017.

Disclosure issues relating to IAS 7 identified during the Principles of Disclosure project

15. Users who took part in the investor outreach programme, and a few other respondents to the Discussion Paper, identified disclosure issues relating to IAS 7.

16. Users said that, in their view, entities do not provide enough relevant disclosures about cash flows, in particular, information about how significant events, transactions and balances had contributed towards the identifiable cash flows of an entity.

17. Other respondents to the Discussion Paper said that:

    (a) many of the disclosure requirements in IAS 7 are not supported by disclosure objectives. Respondents said this makes it difficult to understand the purpose of those disclosure requirements and to exercise judgment in deciding what information to disclose;

    (b) IAS 7 contains disclosure requirements that are also required by other Standards. For example, IFRS 7 also requires entities to disclose information about liquidity;

    (c) in their view, some of the disclosure requirements in IAS 7 are not useful for entities in the banking industry. This related to, for example, the requirement in paragraph 48 of IAS 7 to disclose the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group; and

(d) IAS 7 contains ‘encouraged’ disclosures such as those in paragraph 50 of the Standard, which they think make entities unsure whether they should provide these disclosures (see Appendix A).

IAS 12 *Income Taxes*

Previous Board projects relating to the disclosure requirements of IAS 12

18. In March 2009, the Board published an Exposure Draft of a proposed replacement for IAS 12 (the 2009 Exposure Draft). This publication was in response to many requests for clarification on various aspects of IAS 12 (including making disclosures more informative) and aimed to converge IAS 12 with US GAAP.

19. After considering the feedback received in its 2009 Exposure Draft, the Board decided not to replace IAS 12. Instead, it decided to develop amendments that would resolve some of the problems arising in practice about IAS 12. None of the subsequent amendments were primarily related to the disclosure concerns about IAS 12.

20. Following the Board’s first agenda consultation in 2011, the Board added a long-term research project on income taxes to its research programme. At the May 2016 Board meeting, the staff presented findings from their research to help the Board assess the priority of the income taxes research project in comparison to the priority of other research projects identified in the 2015 agenda consultation[4].

21. The research indicated, among other things, that:

(a) income taxes are very complex and existing disclosures may be insufficient to explain what drives the amount of income taxes reported; and

(b) many users complain that the way tax information is disclosed is unclear, lacks transparency and does not enable them to understand the

[4] ***May 2016 Agenda Paper 19A*** summarises findings from research undertaken on income taxes.

whole picture of the entity's tax position. Specifically, users said they do not understand information provided when the deferred tax accounting method is used.

22. The research project identified that some respondents to the 2009 Exposure Draft, including users of financial statements, suggested the following improvements in the disclosure of tax information:

    (a) additional and more helpful guidance on assessing the recoverability of a deferred tax asset (or valuation allowance), particularly when an entity has a history of tax losses;

    (b) improvement in the disclosure of:

        (i) the tax effect of investment in subsidiaries. Users said that such disclosures would help them to better understand the consequences of cash repatriation from subsidiaries and its impact on the effective tax rate; and

        (ii) tax expense in the interim financial statements. Respondents thought these disclosure requirements are too complex;

    (c) additional and more useful disclosures on uncertain tax positions, including roll-forward of unrecognised tax positions and significant increase/decrease of uncertain tax positions within the following 12-month period.

23. The staff identified five possible ways in which the Board could address the identified practice issues with IAS 12, one of which was to improve the tax disclosures to make them more understandable. The Board considered the research performed but decided as part of the 2015 agenda consultation, that it would pursue neither a fundamental review nor narrow-scope amendments of the income taxes Standard.

Disclosure issues relating to IAS 12 identified during the Principles of Disclosure project

24. A few respondents to the Discussion Paper identified disclosure issues relating to IAS 12, as follows:

(a) it contains 'encouraged' disclosures such as those in paragraph 87 of the Standard, which make entities unsure whether they should provide these disclosures; and

(b) it also contains disclosure requirements that are written in a prescriptive manner, which gives the impression that all disclosures must be made irrespective of whether those disclosures are material.

Additional staff research relating to IAS 12

25. In February 2012, Company Reporting published a CR common practices report on IAS 12, reviewing the financial statements of 21 large listed European companies that report under IFRS[5]. The report analyses disclosures of deferred tax balances.

26. The report indicates that the level of transparency varies in the reporting of income tax disclosures required by IAS 12, specifically on information about:

(a) deferred tax balances for each type of temporary difference, unused tax losses and credits; and

(b) the expiry of unrecognised deferred tax assets.

27. The report highlights that in respect to the information in paragraph 26(a), companies in the sample disclose either gross amounts before offsetting, gross amounts as reflected in the balance sheet or the net liability/asset amounts. Furthermore, when providing the information in paragraph 26(b), companies either do so in a full maturity analysis table or make reference to the expiry of either *some or all* specific assets in a narrative format.

28. Finally, the report indicates that many, but not all, companies voluntarily disclose a reconciliation showing movements in deferred tax balances over the course of the financial year.

[5] Company Reporting, (2012), *CR Common Practices: Deferred Tax under IFRS*, , Retrieved from https://www.companyreporting.com/sites/default/files/common-practices/12.01-deferred-tax2.pdf

IAS 16 *Property, Plant and Equipment*

Disclosure issues relating to IAS 16 identified during the Principles of Disclosure project

29. A few respondents to the Discussion Paper said that improvements are needed to the disclosures around subsequent measurement of property, plant and equipment. In particular, they said that the Board should require entities to disclose the classes of assets that are measured using the cost or revaluation model, and why the selected model was determined to be the most appropriate measurement model.

Additional staff research relating to IAS 16

30. In January 2012, Company Reporting published a CR common practices report focusing on disclosures about property, plant and equipment for a sample of 30 large listed European companies that report under IFRS[6].

31. The report analyses disclosures about determining the carrying amounts and depreciation charges as well as the clarity of disclosures in relation to movements during the year.

32. The report indicates that *almost all* companies in the sample provide the required disclosures about:

    (a) measurement bases used for determining the gross amount of each class of property, plant and equipment;

    (b) depreciation methods used;

    (c) the useful lives or the depreciation rates used; and

    (d) a reconciliation of the carrying amount at the beginning and end of the period.

[6] Company Reporting, (2012), *CR Common Practices: Property, Plant and Equipment*, Retrieved from https://www.companyreporting.com/sites/default/files/common-practices/11.12-cp-ppe_0.pdf

33. The report covered many of the required disclosures in the Standard[7]. Consequently, it *might* indicate that there are no significant issues about disclosures relating to property, plant and equipment.

IAS 19 *Employee Benefits*

Previous Board projects relating to the disclosure requirements of IAS 19

34. In July 2006, the Board added a project to its agenda to improve the requirements for defined benefit arrangements. The Board decided to approach the project in two phases:

    (a) Phase 1—improve recognition, presentation and disclosures of defined benefit plans; and

    (b) Phase 2—improve the measurement of defined benefit plans and contribution-based promise plans, including plans that have the characteristics of both defined benefit plans and defined contribution plans (hybrid plans).

35. The Board completed its work on Phase 1 in June 2011, including amending some of the disclosure requirements for defined benefit plans and multi-employer plans[8].

36. The Board subsequently conducted an online survey[9] on Phase 2 during its 2015 agenda consultation. As part of the feedback received, users indicated that pension accounting is still too complex and existing disclosures are uninformative and inadequate.

37. Furthermore, stakeholders other than users suggested that, in addition to reviewing accounting for hybrid plans, the Board ought to improve disclosure requirements in IAS 19 because the current disclosure requirements are:

    (a) extensive;

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[7] That is, the disclosure requirements in paragraphs 73(a), 73(b), 73(c) and 73(e) of IAS 16.

[8] The disclosure requirements for defined benefit plans in IAS 19 are the most extensive in IAS 19, more so than the disclosure requirements for other types of employee benefits.

[9] May 2016 Agenda Paper 15 summarises feedback received on the research project for post-employment benefits.

(b) may not be relevant for all businesses; and

(c) are not understandable for investors.

38. However, in light of the research performed and feedback received during the 2015 agenda consultation, the Board removed Phase 2 from its research programme. This was because the Board concluded that there was no evidence of sufficiently widespread and significant problems to require a comprehensive review of IAS 19.

Disclosure issues relating to IAS 19 identified during the Principles of Disclosure project

39. Users who took part in the investor outreach programme, and a few other respondents to the Discussion Paper, identified disclosure issues relating to IAS 19.

40. Users highlighted that, in their view, entities do not provide enough relevant information about pension liabilities.

41. Other respondents to the Discussion Paper said that IAS 19 includes disclosure requirements that overlap with the disclosure requirements in other Standards. For example, the requirement in paragraph 145 of IAS 19 to disclose the sensitivity of defined benefit obligations to changes in actuarial assumptions, in their view, overlaps with the requirement in paragraph 125 of IAS 1 to disclose information relating to estimation uncertainty (see Appendix A).

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

42. Users who took part in the investor outreach programme identified disclosure issues relating to IAS 21. They said that, in their view, entities do not provide enough information about the effect of foreign exchange on the financial statements.

IFRS 2 *Share-based Payment*

Previous Board projects relating to the disclosure requirements of IFRS 2

43. Since IFRS 2 became effective in 2005 it has generated many application questions to the IFRS Interpretations Committee. As a result, the Board has made several amendments to IFRS 2 to clarify its scope and how it should be applied. None of these amendments were primarily to address issues with its disclosure requirements.

44. Respondents to the 2011 agenda consultation expressed mixed views about the effectiveness of IFRS 2 and expressed concerns about its complexity. Consequently, in 2012, the Board began a research project with the objective of identifying the most common areas of complexity in IFRS 2.

45. At the November 2015 meeting[10], the staff presented a summary of the research it had conducted. The staff identified nine main application issues, including the volume of disclosures. It identified that while investors find IFRS 2 disclosures useful, they wanted further improvements, such as more prominent and better disclosures about:

    (a) which line items in a statement of financial position include liabilities for cash-settled arrangements; and

    (b) whether the awards granted will ultimately vest and/or will be exercised.

46. Furthermore, the research project identified that 'IFRS 2 is sometimes criticised for leading entities to disclose excessive information in their financial statements'. Based on the staff's additional research, they attributed the length of IFRS 2 disclosures to:

    (a) the number of arrangements granted by the entity; and

[10] ***November 2015 Agenda Paper 16*** summarises the research undertaken on share-based payments.

(b) the way in which the disclosures are organised—whether the entity discloses information about awards in aggregate or separately[11].

47. As part of the Board's research project, the staff conducted meetings with consultative groups, in particular the Global Preparer's Forum (GPF) and Accounting Standards Advisory Forum (ASAF). Some participants in both groups said that the disclosure requirements in IFRS 2 could be improved because they contain language that is too prescriptive.

48. The Board considered the staff's research findings at its May 2016 meeting. The Board also considered responses to the 2015 agenda consultation about the relative priority of the share-based payment research project. In light of the feedback received, the Board decided not to perform further research on the topic. Most of the respondents to the 2015 agenda consultation that had commented on the research project identified the project as either a low or medium priority.

49. The Board plans to publish a Research Summary to help entities and investors to understand more clearly the requirements of IFRS 2 in June 2018.

Disclosure issues relating to IFRS 2 identified during the Principles of Disclosure project

50. Some respondents to the Discussion Paper identified disclosure issues about IFRS 2. They echoed comments heard through the Board's research project that its disclosure requirements are lengthy and written in a prescriptive manner. They added that applying IFRS 2 often results in excessive disclosures in the financial statements.

Additional staff research relating to IFRS 2

51. In April 2015, Company Reporting published a CR common practices report on disclosures about the nature and impact of share-based payment arrangements on

[11] Paragraph 45 of IFRS 2 states that an entity with substantially similar types of share-based payment arrangements may aggregate information unless separate disclosure of each arrangement is necessary to satisfy the disclosure principles in the Standard.

a sample of 25 large global listed companies that report under IFRS[12]. The report indicates that the average length of disclosures about share-based payment arrangements by those sample companies is between 2.5 and 3 pages, with the minimum being half-a-page and the maximum being 6.5 pages.

52. Other publications have identified that applying some of the IFRS 2 disclosure requirements does not always lead to consistent information being disclosed across companies. For example, a July 2015 Company Reporting report analyses disclosures about the extent and valuation of share-based payment arrangements for 25 large global listed companies that report under IFRS[13]. This report found varying levels of detailed information disclosed about the extent of share-based payment arrangements between stock options and other types of share awards except options.

IFRS 3 *Business Combinations*

Post implementation review of IFRS 3

53. In 2013, the Board started its PIR of IFRS 3. The PIR involved reviewing issues that were important or contentious during the development of the Standard, feedback from outreach activities, academic research and results of the Request for Information (RFI). The PIR focused on seven main areas, including the usefulness of disclosures provided to users of financial statements. While PIR participants said that IFRS 3 had increased transparency due to its extensive disclosures, they still identified a number of disclosure issues.

54. The Board published a report and feedback statement on the PIR of IFRS 3 in June 2015. Based on the PIR findings, the Board identified 12 areas of focus that warrant further investigation, some of which included disclosure-related issues.

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[12] Company Reporting, (2015), C*R Common Practices: Share-based Payment Arrangements under IFRS disclosure of nature and impact*, Retrieved from https://www.companyreporting.com/sites/default/files/common-practices/sharebasedpaymentsnatureandsignificance_0.pdf

[13] Company Reporting, (2015), *CR Common Practices, Share-based Payments under IFRS disclosure of the extent of arrangements and valuation*, Retrieved from https://www.companyreporting.com/sites/default/files/common-practices/15.07-sharebasedpaymentsmovementsandvaluation.pdf

55. Some of the issues identified in the PIR are currently being considered in the Board's active research project on Goodwill and Impairment. As part of that project, the Board has tentatively decided to introduce additional disclosure requirements about goodwill.

56. In addition to the disclosure issues being considered in the Goodwill and Impairment project, PIR participants identified the following disclosure issues about IFRS 3:

   (a) users said that some disclosures are written in boilerplate language, for example, information:

      (i) about the primary reasons for the business combination; and

      (ii) relating to assets acquired and liabilities assumed;

   (b) users said that entities do not provide some disclosures with enough granularity, for example, information about the nature of intangible assets recognised;

   (c) the Standard does not require a number of disclosures that users would find useful for their analysis, for example:

      (i) disclosure about the carrying amounts of the assets acquired and liabilities assumed of the acquiree *before* the business combination;

      (ii) information about subsequent performance of the acquired business;

      (iii) comparative and interim proforma information for the combined entity (the current requirement for proforma disclosures are only for the current reporting period); and

      (iv) additional tax disclosures, such as tax losses in the acquired entity or the effects of the business combination on the expected tax rate; and

   (d) some of the disclosure requirements are difficult to produce and require significant effort. This related to disclosures:

      (i) of the revenue and profit or loss of the combined entity for the current period as though the acquisition had occurred at the beginning of the reporting period; and

(ii) about the impact of acquisitions made after the reporting date, but before the financial statements are authorised.

Disclosure issues relating to IFRS 3 identified during the Principles of Disclosure project

57. Some respondents to the Discussion Paper also identified disclosure issues about IFRS 3. They said:

(a) the Standard contains an excessive volume of disclosure requirements;

(b) the disclosure objectives are written at too high a level to understand how they relate to the detailed list of disclosure requirements; and

(c) the disclosure requirements are written in a prescriptive manner, which is regarded as a checklist by auditors and preparers.

IFRS 8 *Operating Segments*

Post implementation review and maintenance project on IFRS 8

58. In 2012, the Board began a PIR of IFRS 8. The report and feedback statement on the PIR, published in July 2013, concluded that the benefits of applying the Standard were generally as expected and the overall Standard achieved its objectives. However, some stakeholders expressed concerns about the segment information disclosed applying IFRS 8.

59. The feedback statement said the following in response to requests for improved disclosures:

> "…
>
> **The assessment of these issues will also need to be carried out within the context of our more general review of disclosure requirements.** Financial reports are the main communication tool for many entities and segment information is a key input into most investors' modelling of future results and cash flows, but consultation through the disclosure forum indicates that there is increasing concern about disclosure overload."

60. The feedback statement identified the following issues relating to disclosures:

(a) some users said that entities do not provide enough information for them to understand and assess:

(i) what reconciling items represent or how the reconciling amounts relate to each segment; and

(ii) how operating segments are aggregated into reportable segments. Some users think entities are aggregating inappropriately;

(b) some users said that any change in the basis for segmentation from one year to the next results in the loss of valuable trend information for that entity. They suggested that the Board should require entities to present 3-5 year comparative information for segment information;

(c) entities find it difficult to understand how:

(i) reconciliations should be provided and how reconciling amounts should be disclosed; and

(ii) to apply the aggregation guidance; and

(d) entities present different definitions of 'operating result' or 'operating cash flow', which makes it difficult for investors to make comparisons between entities. In addition, the important line items needed to derive those sub-totals are often not separately reported. Users suggested that the Board should require disclosure of some defined line items.

61. The Board added a project to its agenda to further investigate the issues identified through the PIR and consider whether to amend IFRS 8 to address those issues. The Board published an Exposure Draft of eight proposed amendments to IFRS 8 and one proposed amendment to IAS 34 *Interim Financial Reporting.* The proposed amendments included some clarifications and improvements to address the disclosure issues described in paragraphs 60(a), (b), (c)(ii), and (d) above.

62. At its March 2018 meeting, the Board considered the feedback received and decided not to amend IFRS 8. This was because the Board concluded that the proposed amendments would not result in sufficient improvements in information to justify the costs to stakeholders.

Disclosure issues relating to IFRS 8 identified during the Principles of Disclosure project

63. Users who took part in the investor outreach programme said that entities do not provide enough information about their operating segments. In particular, users said they would like to see more granular information than is often provided today.

IFRS 13 *Fair Value Measurement*

Post implementation review of IFRS 13

64. The Board began its PIR of IFRS 13 in 2016. The PIR involved reviewing issues that were raised during the development of the Standard, outreach with stakeholders, academic literature review and feedback received through the RFI. The PIR focused on four topics, including the effectiveness of disclosures on fair value measurements.

65. Overall, many stakeholders said that they thought IFRS 13 was working well and has brought significant improvements to financial reporting. While many of the respondents stated that the current disclosure requirements were comprehensive, sufficient and gave useful information, many other stakeholders identified disclosure issues and suggested that additional information would be useful[14].

66. During the PIR, stakeholders identified disclosure issues about IFRS 13, as follows:

    (a) some preparers find some of the disclosure requirements too onerous and costly to prepare. This feedback related to the following disclosures:

        (i) quantitative sensitivity analysis reflecting reasonably possible *alternative assumptions* for recurring fair value measurement of financial assets and financial liabilities categorised within Level 3 of the fair value hierarchy;

[14] ***January 2017 Agenda Paper 7C*** (Appendix 2) summarises the feedback received during Phase 1 and ***January 2018 Agenda Paper 7F*** details the feedback received through the RFI, on the PIR of IFRS 13.

   (ii) reconciliation from opening to closing balances for Level 3 fair value measurements ('Level 3');

   (iii) quantitative information about significant unobservable inputs; and

   (iv) unrealised gains and losses for Level 3;

(b) some users often found some of the disclosures provided to be boilerplate and in need of more entity-specific information. For example, the narrative description of the sensitivity of fair value measurement to changes in unobservable inputs;

(c) some stakeholders said that some required disclosures in IFRS 13 do not provide enough granularity to be decision useful information. For example, quantitative disclosure of sensitivity analysis for Level 3 can often be presented in aggregate for non-homogenous assets. Some stakeholders added that this particular disclosure is difficult to compare across reporting entities;

(d) some stakeholders said that some required disclosures in IFRS 13 do not provide relevant information. For example, preparers have said that reconciliation of changes from opening to closing balances for Level 3 is provided only to comply with disclosure requirements, as management does not use it. Some users also said that they do not use this disclosure in their analysis; and

(e) disclosures that some users would find useful in their analysis are not required by the Standard or not required for all levels of the fair value hierarchy. For example:

   (i) more explanations of the assumptions made in calculating Level 2 and Level 3 fair value measurements;

   (ii) providing information about the range of possible values and reflecting interdependencies of assumptions for recurring fair value measurement of financial assets and financial liabilities categorised within Level 3 (the current requirement is limited to that described in paragraph 66(a)(i));

(iii) additional disclosures for Level 2 fair value measurements; and

(iv) disclosure of the change in unrealised gains or losses recognised in profit or loss for *all levels* in the fair value hierarchy (the current requirement only applies to recurring Level 3).

67. At its March 2018 meeting, the Board assessed the feedback received through the PIR and concluded that IFRS 13 is working as intended. However, the Board decided that it would feed the PIR findings regarding the effectiveness of disclosures into its work on Better Communication in Financial Reporting. In particular, the Board decided that it would consider whether IFRS 13 would be a good candidate to select for a targeted Standards-level review.

Disclosure issues identified during the Principles of Disclosure project relating to IFRS 13

68. Users who took part in the investor outreach programme, and some other respondents to the Discussion Paper identified disclosure issues relating to IFRS 13.

69. Users who took part in the investor outreach programme said that, in their view, entities do not provide enough information about fair value.

70. Other respondents to the Discussion Paper said that:

(a) the disclosure requirements in IFRS 13:

(i) are excessive—i.e. they contain unnecessary requirements;

(ii) contain duplicative requirements; for example, the requirement in paragraph 93(h)(ii) of the Standard to disclose the effect of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions for recurring Level 3, in their view, appears to duplicate the requirement in paragraph 93(h)(i) of the Standard to provide a narrative description of the sensitivity of fair value measurements to changes in unobservable inputs (see Appendix A);

(iii) often lead entities to provide boilerplate information in the financial statements. The example described in paragraph 66(b) was also provided here;

(iv) are written in a prescriptive manner. Respondents said that, in their view, the prescriptive language used makes it difficult for them to apply the concept of materiality;

(v) are often not understood by entities, for example, the purpose of the requirement in paragraph 93(c) of the Standard to disclose the amounts and reasons of any transfers between Level 1 and Level 2 of the fair value hierarchy for assets and liabilities held at the end of the reporting period measured at fair value on a recurring basis; and

(b) the disclosure objectives in IFRS 13 are written in a way that do not assist entities in identifying relevant disclosures other than those specified in the Standard.

Appendix A—Extracts from disclosure requirements in IFRS Standards

A1. An example of encouraged disclosure requirements in paragraph 50 of IAS 7 (see paragraph 17(d) of this paper):

> 50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, **is encouraged and may include**:
>
> (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
>
> (b) [deleted];
>
> (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
>
> (d) the amount of cash flows arising from the operating, investing and financing activities of each reportable segment (see IFRS 8 *Operating Segments*).

A2. Some stakeholders have said that the requirement in paragraph 145 of IAS 19 duplicates the requirement in paragraph 125 of IAS 1 (see paragraph 41 of this paper):

> ***Paragraph 144 and 145 of IAS 19***
>
> 144 An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 76). Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.
>
> 145 An entity shall disclose:
>
> (a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 144) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
>
> (b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

> (c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.
>
> ***Paragraph 125 of IAS 1***
>
> **125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**
>
> **(a) their nature, and**
>
> **(b) their carrying amount as at the end of the reporting period.**

A3. Some stakeholders have said that the disclosure requirements in paragraph 93(h)(ii) of IFRS 13 duplicates the requirement in paragraph 93(h)(i) (see paragraph 70(a)(ii) of this paper):

> 93(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:
>
> (i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).
>
> (ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.