STAFF PAPER

23 July 2019

FASB | IASB Meeting

Project	**Disclosure Initiative—Targeted Standards Level Review of Disclosures**		
Paper topic	Feedback received on employee benefit and fair value measurement disclosures		
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Purpose of this paper

1. The purpose of this paper is to summarise feedback received on the Board's Targeted Standards-level Review of Disclosures project. In particular, the paper summarises feedback from users of financial statements (users) about:

   (a) their primary information needs when analysing information relating to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*; and

   (b) particular items of information that could be used to meet those needs.

2. This paper is structured as follows:

   (a) Background;

   (b) Feedback received on IFRS 13 *Fair Value Measurement*;

   (c) Feedback received on IAS 19 *Employee Benefits*;

   (d) Question for the Boards.

Background

Project background

3. In March 2017 the Board published the *Disclosure Initiative—Principles of Disclosure* Discussion Paper. The Discussion Paper identified three factors that contribute to the disclosure problem:

   (a) not enough relevant information;

   (b) too much irrelevant information; and

   (c) ineffective communication of the information provided.

4. Almost all respondents to the Discussion Paper said the disclosure requirements in IFRS Standards are one contributor to the disclosure problem. In light of the feedback received, the Board decided that improving the way disclosure requirements are developed and drafted in IFRS Standards is the most effective way it can help to address the disclosure problem at this time. Consequently, the Board decided to prioritise its Targeted Standards-level Review of Disclosures project. In this project, the Board is:

   (a) developing guidance for the Board itself to use when developing and drafting disclosure requirements; and

   (b) testing that guidance for the Board by applying it to the disclosure requirements in IFRS 13 and IAS 19.

Guidance for the Board

5. At the May-July 2018 Board meetings, the Board developed draft Guidance for the Board when developing and drafting disclosure objectives and requirements in future (draft Guidance).

6. A key element of the draft Guidance is the use of specific disclosure objectives based on the needs of users of financial statements. Including such objectives in the Standards is intended to help preparers exercise effective judgement about what to

disclose. Applying the draft Guidance, the Board would require an entity to comply with specific disclosure objectives.

7. Detailed information from users and other stakeholders is critical to the development of effective disclosure objectives. Consequently, the draft Guidance requires the Board to develop and undertake a tailored outreach programme.

Outreach with users of financial statements

8. From November 2018 to April 2019, Board Members and staff undertook a tailored user outreach programme. The outreach focussed on understanding:

   (a) what information users want disclosed;

   (b) why they are interested in that information;

   (c) what analysis they will perform using the information;

   (d) how precise and detailed information needs to be to adequately meet their needs; and

   (e) the relative prioritisation of the requested information. For example, distinguishing between the information critical to their analysis and information that is 'nice to have'.

9. Board members and staff held 21 meetings with 35 users. We met with users from both buy-side, sell-side and credit rating agencies. These were a combination of in-person meetings, telephone calls and video conferences. The majority of outreach meetings were conducted either with one or two users. This approach enabled the Board to explore users' objectives and information needs in detail.

Outreach with other stakeholders

10. Having completed the outreach described in paragraphs 8-9, Board Members and staff discussed a summary of the feedback received with other stakeholder types. This included discussions with:

(a) the Global Preparers Forum about potential costs and other consequences of disclosing items of information that might meet user information needs;

(b) the Accounting Standards Advisory Forum about audit, regulatory and other consequences of disclosing items of information that might meet user information needs; and

(c) a joint meeting of the Global Preparers Forum and Capital Markets Advisory Committee at which members were asked to debate together the costs and benefits of particular disclosure examples that might satisfy user information needs.

Feedback—Fair Value Measurement

Key messages from users

11. Most users that use detailed fair value disclosures in their analysis were broadly happy with the information they receive today. Many of the users that we spoke to said that their suggested improvements to fair value measurement disclosures are not critical.

Approach to analysis and use of today's disclosures

12. Many users start their analysis by looking down a company's table of assets and liabilities measured at fair value to identify if there is anything they would like to explore in detail. If there is nothing, most do not look at the disclosures further.

13. Consequently, many users—including a few bank-sector analysts—do not use the detailed disclosures about fair value measurement in their analysis. This is either because:

(a) those disclosures are rarely material to the companies that some users monitor. This feedback came from users other than bank-sector analysts.

(b) detailed fair value disclosures are only provided for Level 3 assets and liabilities. However, some companies—including many banks—have the most significant assets and liabilities categorised as Level 2. This feedback came from bank-sector and other analysts.

14. Many of the users that *do* use detailed fair value disclosures today think they provide useful information. This is because these disclosures support their overarching objectives.

Application of materiality

15. Many users said they often get a lot of information about immaterial fair value measurements, and little information about material measurements. Some of these users said these concerns could be most effectively addressed through better application of materiality. Other users thought standard setting could help—for example, by requiring entities to provide additional disclosures for Level 2 fair value measurements similar to those required for Level 3 today.

16. We asked those users that do not use some or all of the detailed fair value disclosures today if they would be happy to lose any of the fair value disclosures that they currently receive?

17. In response to this question, many users said that the loss of some or all of the detailed information would be unlikely to affect their analysis. However, most of these users added that they would still prefer to have the detailed information available. For example, they take comfort from knowing that if a particular item becomes material to their analysis, there would be information available in the financial statements. These users would not support elimination of IFRS 13 disclosure requirements, but they would support better application of judgement in eliminating information that is not material from the financial statements.

User information needs

18. The two tables below summarise:

    (a) users' primary information needs when analysing disclosures relating to fair value measurement (Table 1).

    (b) the items of information users told us would most effectively meet those needs (Table 2).

Table 1—Users' information needs relating to fair value measurement

	User objectives	**Link to specific items of information (see Table 2)**
A	Understand the sensitivities of the entity's assets and liabilities measured at fair value. Specifically, to understand: • the range of possible values within which an entity's fair value measurement might fall. • where within that range the entity's fair value measurement does fall. • the events or circumstances that would make fair values materially different to those reported. • potential cash flow effect of an entity's exposure to fair value changes.	**4, 7**
B	Determine the fair value amounts to input into analyses such as enterprise value calculations.	**1, 5, 8**
C	Forecast future fair value movements in order to, for example, determine expected returns on assets.	**1, 6, 7, 9**
D	Assess the appropriateness of the inputs, techniques and amounts underlying an entity's fair value measurements. Specifically, users want to assess: • whether the inputs, techniques and amounts are reasonable; and • whether they need to make any adjustments to those inputs, techniques and amounts in their analysis.	**3, 4, 5, 6, 7**
E	Understand the nature and characteristics of the assets and liabilities measured at fair value, particularly for complex or hybrid instruments.	**1, 2**

Table 2—Summary of users' suggested items of information that could be used to meet their information needs on fair value measurement

		Link to objectives (see Table 1)
1	**Breakdown of the type of instruments within each level of the fair value hierarchy.** ✓ *Almost all users said that this is needed.* ✓ *For example, if the entity has derivatives as a type of instrument measured using fair value, explaining the specific type(s) of derivatives.* ✓ *Some users added that additional narrative explanation should be provided, particularly for complex instruments. This narrative should enable users to understand whether and how to factor each type of instruments in their enterprise value calculation or other method of analysis.*	**B, C, E**
2	**Narrative explanation about how an entity has determined which level an instrument belongs in, particularly where this involves judgement** ✓ *Some users thought that the boundaries between levels is unclear, and disclosure is needed to explain why an entity has allocated particular instruments to particular levels.* ✓ *Some users added that this is especially important for complex or hybrid financial instruments.*	**E**
3	**Inputs used in deriving the fair value measurements** ✓ *Almost all users who analyse detailed fair value measurement identified this as useful information.*	**D**
4	**Sensitivity analysis of Level 3 fair value measurements** See paragraphs 19-22.	**A, D**
5	**Valuation techniques and processes applied to Level 3 fair value measurements.** ✓ A *few users added that this information is only useful if it is* ***entity-specific*** *and* ***instrument specific****. For example, explaining the specific techniques applied in valuing the most significant individual types of level 3 instrument. These users said the disclosure needs to explain why particular valuation techniques are appropriate for an entity's own circumstances.*	**B, D**
6	**Reconciliation between opening and closing balances of Level 3 fair value measurement.** See paragraphs 23-26.	**C, D**
7	**Additional disclosures for Level 2 instruments, similar to as those typically provided for Level 3** See paragraphs 27-32.	**A, C, D**
8	**Fair value of financial instruments not held at fair value** ✓ *This information was particularly highlighted as useful by those users analysing on an enterprise value basis.*	**B**

9	**Explanation, and disaggregation of the total fair value of assets and liabilities recognised in the primary financial statements** ✓ *A few users identified this as more useful than the detailed information by level of the fair value hierarchy.* ✓ *Those users added that disaggregation of the amounts by geographical region and instrument type would be useful.*	**C**

Feedback on areas also considered in detail by the FASB

17. Paragraphs 19-32 below summarise detailed feedback from all stakeholder types about the following three areas:

    (a) sensitivity analysis for Level 3 fair value measurements;

    (b) reconciliation from opening to closing balance of Level 3 fair value measurements; and

    (c) additional disclosures for Level 2 fair value measurements.

18. The Board is considering these areas (amongst others) in light of feedback received on the Targeted Standards-level Review of Disclosures. We understand the FASB considered similar areas in detail as part of the Disclosure Framework project. Consequently, we have provided the further information below to facilitate the two Boards sharing experience on these topics.

Sensitivity analysis of Level 3 fair value measurements

19. Some users described sensitivity analysis as critical to their analysis. Many users said they would like to see a sensitivity analysis that shows the effect on fair value of changing multiple inputs simultaneously.

20. Some of these users added that such an analysis should cover wider deviations from the base case inputs reflected in the financial statements than is typically the case today. Users said this is especially important for those inputs that have a non-linear effect on fair value. That is, when the change in those inputs is not proportional to the resulting change in the fair value measurements.

21. Some users said they do not find the sensitivity analysis that is typically disclosed today helpful. This is either because:

(a) it is too detailed for the analysis they perform. A few of these users suggested that an entity should instead disclose the upside and downside sensitivity of the total fair value amounts recognised in the statement of financial position; or

(b) it does not directly address their primary objective of understanding how the entity derived its fair value measurements.

22. A few GPF and ASAF members said the sensitivity information described in paragraphs 19-20 would be costly to prepare. A few suggested that entities should instead provide a simple scenario analysis that displays the positive and stress effects, on fair value, of all reasonably possible changes in inputs. This would be in addition to the 'normal' base case scenario presented in the financial statements.

Reconciliation from opening to closing of Level 3 fair value measurements

23. Users expressed mixed views about the usefulness of the reconciliation:

(a) many users find the whole reconciliation useful.

(b) some other users said they are primarily interested in the line items representing transfers into and out of Level 3.

24. Users that do find the reconciliation useful said it helps them to 'trust' the reported measurement. This is because the reconciliation further explains the amounts in the financial statements. The reconciliation also allows users to identify any significant movements they would like to investigate further or adjust for in their analysis. A few of these users added that a separate reconciling item for the effect of foreign exchange rates is useful.

25. A few ASAF members said that the most important pieces of information in the reconciliation are the line items representing transfers into and out of Level 3 and the effect of foreign exchange rates. In contrast, a few GPF members thought that separate disclosure of the effect of foreign exchange rates would not significantly add to users' understanding of the whole reconciliation.

26. The ASAF members above added that the reconciliation is costly to prepare, particularly for entities with significant Level 3 items.

Additional disclosures for Level 2 fair value measurements

27. Some users expressed concerns about whether entities are making appropriate judgments when applying the boundaries between levels of the fair value hierarchy. Specifically, these users are concerned that entities might either:

    (a) classify Level 3 items into Level 2 to avoid having to provide the detailed Level 3 disclosures required by IFRS 13 today; or

    (b) classify items inconsistently between Level 2 and Level 3.

28. These users branded Level 2 as a ‘black box’. Consequently, they said that additional information about the inputs, techniques and amounts underlying Level 2 fair value measurements would be very useful. Some of these users added that Level 2 items are often significant for many banks.

29. Many of these users did not further specify the exact information they would like to see. However, some said that information about Level 2 measurements should be similar to the detailed disclosures currently required for Level 3 (i.e. sensitivity analysis, valuation techniques and reconciliation from opening balances to closing balances). In their view, this approach would avoid the perceived incentive for entities to avoid allocating items into Level 3 today. Users that provided these suggestions generally prioritised the reconciliation.

30. A few other users said this information is not necessary. These users said that the existing requirement to disclose the amount of transfers into and out of the different levels of the fair value hierarchy addresses the identified concerns.

31. A few GPF members disagreed with providing additional disclosures for Level 2 items. These preparers doubted the benefit of such disclosures to users. They said that Level 3 fair value measurements are the only ones that are subjective enough to warrant detailed disclosures.

32. A few ASAF members echoed users’ reasons for wanting this information. However, a few GPF members suggested that user objectives could instead be met by explaining how the entity has determined the level to which an item belongs.

Feedback—Employee Benefits

Key messages from users

33. The overarching message from most of the users that we spoke to is that today's employee benefit disclosures are often not effective in meeting their objectives.

34. Most users would like different information about employee benefits. For example, users said that better information about the expected cash flow effects of a post-employment benefit plan would be more useful that the information they typically receive today. Some users added that some of the information they receive today, for example detailed information about assumptions, is typically only understandable to sophisticated investors rather than a 'normal' primary user.

35. Almost all users said they focus primarily on disclosures relating to defined benefit plans. They consider other types of employee benefits 'harmless' and said disclosure of amounts recognised in the income statement and contributions into the plans is sufficient.

User information needs

36. The two tables below summarise:

    (a) users' primary information needs when analysing disclosures relating to defined benefit plans (Table 3).

    (b) the items of information users told us would most effectively meet those needs (Table 4).

Table 3—Users' information needs relating to defined benefit plans

User objectives		**Link to specific items of information (see Table 4)**
A	Forecast future defined benefit obligation.	**1, 5, 6, 8**
B	Determine the value of the defined benefit obligation to input into analyses for forecasting, such as enterprise value calculations.	**1, 5**

	• For a group of users, the obligation is the amount presented in the financial statements. • For another group of users, the obligation is the amount they consider represents 'debt-like' obligation. These users do not consider other post-employment benefits such as health benefit plans as 'debt-like' obligation. This is because they often have funding flexibility and lack regulatory protection in some jurisdictions. • For a different group of users, the obligation is the amount it would cost the entity to transfer the obligation to a third party.	
C	Evaluate the impact of the defined benefit obligation on the entity's cash flows. Specifically, to: • understand the nature of expected future cash flows. • forecast the impact of the obligation on future cash flows for input into analyses such as the discounted cash flows (DCF). • assess whether the obligation could become significant enough to curtail the entity's strategic flexibility or its ability to pay dividends.	**1, 6**
D	Assess the appropriateness of the assumptions and amounts underlying the entity's valuation of its defined benefit obligation. Specifically, users want to assess: • whether the assumptions and amounts are reasonable; and • whether they need to make any adjustments to those assumptions and amounts in their analysis.	**3, 4, 5, 8**
E	Understand the economics of the plan(s) held by the entity and specifically, the risks to which the plan(s) expose the entity. This also allows users to assess the potential future impact of those exposures.	**2, 3, 7**
F	Understand the sensitivity of the defined benefit obligation to different actuarial assumptions in order to determine appropriate adjustments for risks in analyses. Specifically, to: • understand the range of possible values within which an entity's obligation might fall. • understand where within that range the entity's obligation does fall. • understand the effect, on the obligation, of interrelationships between different assumptions. • understand the effect, on the obligation, of assumptions with non-linear effects. • compare sensitivities, of different plans and, across entities.	**4**
G	Understand the time period over which the remaining defined benefit obligation is expected to wind down. This is particularly important for *closed* defined benefit plans.	**9**

H	Understand the effect of an entity's plan(s) on the primary financial statements. Specifically, to understand: • whether, and by how much, the plan(s) are in surplus or deficit. • the actual cash flows for the plan(s) during the period. • the impact of the plan(s) on the income statement during the period.	**1**

Table 4—Summary of users' suggested items of information that could be used to meet their information needs on defined benefit plans

		Link to objectives (see Table 3)
1	**Explanation, and disaggregation, of amounts recognised in the financial statements** ✓ *Many users observed that it can be very difficult to understand how pension disclosures relate to the primary financial statements. As a result, they would like to see:* *- clear statements as to whether plan(s) are in surplus or deficit and by how much.* *- the actual cash flows related to the plan(s) during the period (typically the amount added back to operating cash flows via the indirect method does not provide this).* *- amounts recognised in the income statement.* *- information about the effect of acquisitions on the entity's pension plans, if any.* ✓ *A few users added that disaggregation of amounts by one or all of the following - geographical region, segments, member type, plan type (i.e. differentiating between those in surplus and those in deficit) - would be useful.*	**A, B, C, H**
2	**Nature and characteristics of the plans** ✓ *Users identified the following examples of useful information, particularly for the plan(s) which the entity identifies as its most significant:* *- Status of the plans. For example, whether they are open or closed to new members and the mix of plan members.* *- Approach to funding the plan(s). For example, the approach for dealing with any shortfalls for unfunded plans.* *- Approach to investing the plan assets.* *- Any agreements or commitments between the entity and the plan trustees.* *- Any regulatory or jurisdiction specific factors that impact the plan(s).*	**E**
3	**Significant financial and demographic assumptions used in deriving the pension obligation** ✓*Users identified the following examples of useful demographic information:* *- disaggregation of relevant demographic assumptions by segments.* *- proportion of members by type (active members vs. pensioners).* ✓ *A few other users do not think separate disclosure about demographics is necessary because the underlying objectives can be adequately satisfied by information about future cash obligations disaggregated by age brackets.* ✓ *A few users also said that entities should highlight the assumptions with the most significant effect on the pension obligation and explain why those assumptions were*	**D, E**

	the most significant. ✓ *A few users added that when there have been material changes to the assumptions used, information to understand how those changes affected the pension obligation would be helpful.*	
4	**Sensitivity analysis of significant actuarial assumptions** ✓ *Almost all users said that they would like to see:* *- a wider range of possible assumptions in the analysis, particularly when the assumptions have a non-linear effect on the pension obligation.* *- an analysis that shows the effect, on the pension obligation, of changing multiple assumptions simultaneously.* ✓ *Some users prioritised comparability and said that disclosed deviations from the base case scenarios (i.e., +/- 100 basis points on discount rate) should be the same across all companies.* ✓ *Some users added that they are most interested in the discount rate, inflation rate and mortality/longevity assumptions.*	**D, F**
5	**Explanation of differences between various pension plan valuations (for example, IAS 19 valuation versus funding valuation versus buyout value)** ✓ *Some users added that a numerical reconciliation between the IAS 19 valuation and the funding/triennial valuation would be helpful.* ✓ *A few users said that they find the funding/triennial valuation more useful than the IAS 19 valuation because it has a clearer link to the possible impact on cash flows.* ✓ *Most users added that narrative information about the funding/triennial valuation, when applicable, should be disclosed.* ✓ *Some users said the buyout value would be useful only in certain situations, for example when the plan and its liability are significant relative to the size of the entity. Other users did not think disclosure about buyout value is necessary, and/or thought it would be difficult for entities to obtain a reliable value.*	**A, B, D**
6	**Expected contributions into the plan(s), either as agreed with the trustees/appropriate regulatory bodies or internally budgeted** ✓ *Almost all users said that an entity's agreed schedule of payments, if any, should be the basis of the disclosure.* ✓ *Some users said that entities should differentiate between 'normal' contributions representing payroll deductions and 'extraordinary' contributions representing, for example, deficit repairs.* ✓ *Some other users questioned whether it would be realistic to require entities to disclose this information either for practical reasons (as contributions are often discretionary) or regulatory reasons (the information could interplay with local laws and regulations). Some added that alternative pieces of information could achieve the same objective, for example, narrative disclosures about show the scheme is managed and disclosure of any expected minimum contributions.*	**A, C**
7	**Fair value of the plan assets disaggregated by types of assets (for example, equities, derivatives, cash and cash equivalents)** ✓ *A few users added that the following additional information would also be useful:* *- narrative information about risks associated with plan assets.* *- narrative information about hedging activities.* *- actual rate of return on the specific types of assets.*	**E**

8	**Reconciliation from opening to closing balance of the net defined benefit liability (asset)** ✓ *Users who found this information useful generally did so because it helped their 'trust' in the reported numbers and highlights whether there are any significant elements to the plan that they'd like to investigate.* ✓ *A few users either added that the reconciliation is not useful because it is too detailed or said that they are primarily interested in the line items representing the 'contributions into the scheme' and the 'benefit payments'.*	**A, D**
9	**Expected future benefit payments to members of closed plans** ✓ *A few users identified the following examples of useful information:* - *the time period over which payments will continue to be made to members in such plans and the associated expected payments.* - *maturity analysis for both plan assets and the pension obligation.* - *narrative information explaining the approach to managing the remaining obligations.* - *whether the obligations are expected to be met via existing plan assets or whether any deficit repair payments may be needed.*	**G**

Question for the Boards

Question
(1) In light of the FASB's experience with its Disclosure Framework projects, do the FASB members have any advice for the IASB when addressing the feedback received from stakeholders? We are particularly interested in Board Member views on the topics highlighted in paragraphs 17-32 of this paper, that is: (a) sensitivity analysis of Level 3 fair value measurements; (b) reconciliation from opening to closing balance of Level 3 fair value measurements; and (c) potential additional disclosures for Level 2 fair value measurements.