

STAFF PAPER

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Project	Disclosure Initiative—Targeted Standards-level Review of Disclosures		
Paper topic	Approach to Technical Analysis		
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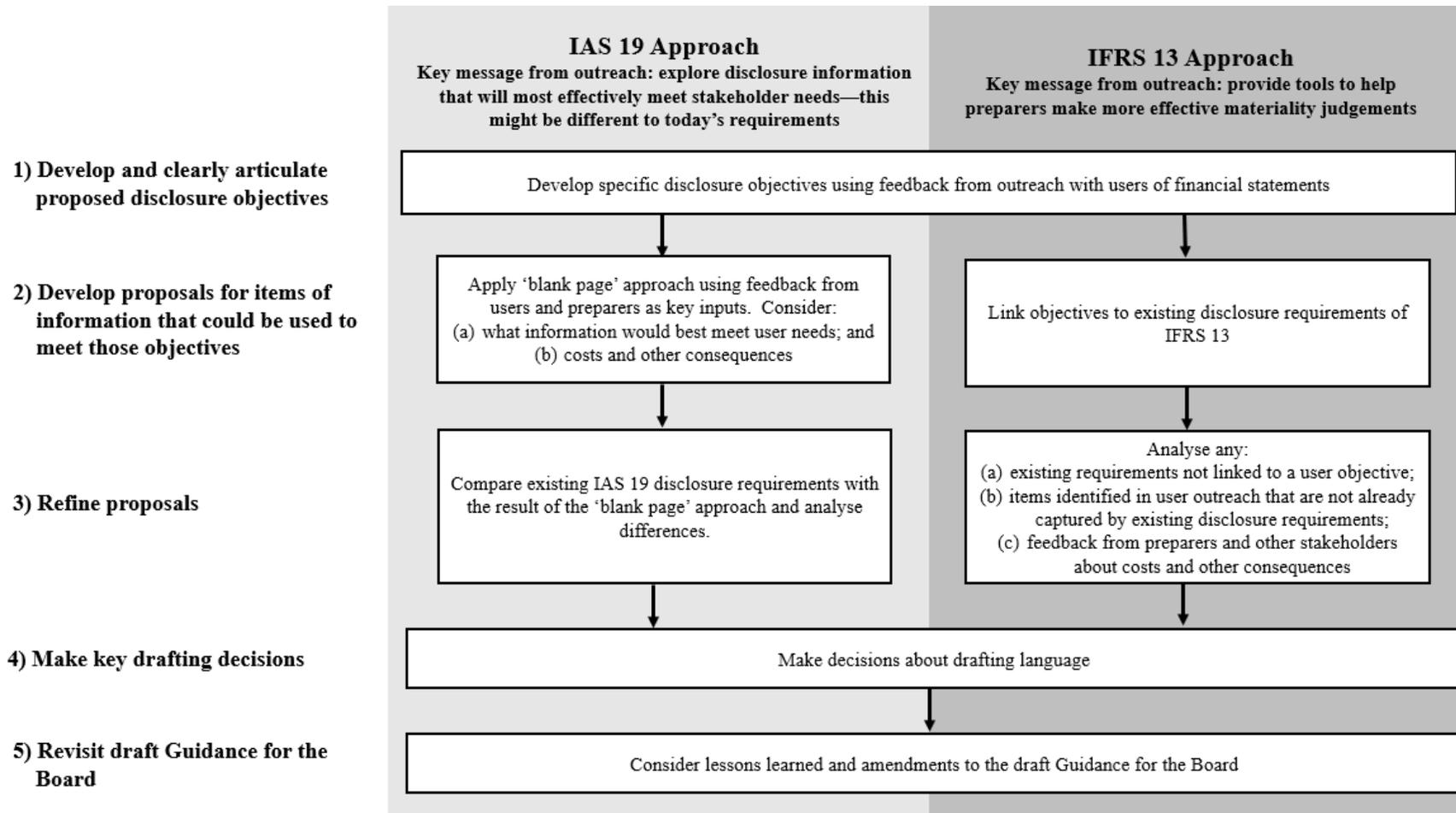
This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB[®] *Update*.

Objective and overview

1. The objectives of this paper are to:
 - (a) summarise key differences between the feedback received on IAS 19 *Employee Benefits* and that on IFRS 13 *Fair Value Measurement*, and how those differences affect our planned analysis;
 - (b) ensure the Board is happy with our planned approach before bringing technical analysis and recommendations on the Targeted Standards-level Review of Disclosures project; and
 - (c) ask Board members to share any thoughts or advice that might help us develop our technical analysis.
2. This paper is structured as follows:
 - (a) summary of staff recommendations—the approaches described in this paper (paragraph 3);
 - (b) background (paragraphs 4-5);
 - (c) testing performed to date and next steps (paragraphs 6-9);
 - (d) approach to technical analysis (paragraphs 10-22);
 - (e) question for the Board;
 - (f) Appendix—Draft Guidance for the Board and work performed to date.

Summary of staff recommendations—the approaches described in this paper

3. The two approaches described in this paper, and recommended by the staff, are summarised in the diagram below:



Background

4. During May-July 2018, the Board developed draft Guidance for the Board when developing and drafting disclosure objectives and requirements in future (draft Guidance). A key element of that draft Guidance is the use of specific disclosure objectives based on the needs of users of financial statements (Step 1 in the draft Guidance—see Appendix A). Such objectives are intended to help preparers exercise effective judgement about what to disclose. Applying the draft Guidance, the Board would:
 - (a) require an entity to comply with those disclosure objectives; and
 - (b) supplement¹ the objectives with items of information that an entity could disclose in order to meet those objectives.
5. At its July 2018 meeting, the Board selected IAS 19 and IFRS 13 as the two test cases for its targeted standards-level review of disclosures. The Board selected IAS 19 and IFRS 13 because it expects those two Standards to test the draft Guidance in different ways (see *July 2018 Agenda Paper 11D*). The objectives of testing the draft Guidance on these Standards are twofold:
 - (a) improve the draft Guidance; and
 - (b) improve the disclosure objectives and requirements in the selected test Standards, so that applying them provides information that is more useful to the primary users of financial statements.

Testing performed to date and next steps

6. The staff have been testing the section of the guidance that relates to *developing* disclosure objectives and requirements (Step 2 in the draft Guidance—see Appendix A). The Appendix to this paper summarises that guidance and our work to date. In summary, we have:

¹ Staff plan to discuss the exact drafting language we will use to describe these items of information in the Standards at a later meeting.

- (a) worked with the IFRS Taxonomy team to identify any (see *Agenda Papers 11B and 11C*):
 - (i) common application challenges or inconsistencies; and
 - (ii) inconsistencies or duplications across existing requirements;
- (b) developed and implemented a tailored outreach programme with users of financial statements (see *Agenda Papers 11A, 11B and 11C*); and
- (c) performed outreach with preparers of financial statements and National Standard-setters (see *Agenda Papers 11A, 11B and 11C*).

7. Having completed the activities described in paragraph 6, our next steps are to bring technical analysis and recommendations to the Board about proposed amendments to the disclosure sections of IAS 19 and IFRS 13.
8. Staff think the feedback from stakeholders demonstrates that applying the draft Guidance to the two selected Standards will test the draft Guidance—and its potential benefits—in two different ways (see paragraphs 15 and 18). Furthermore, we think the contrast between the feedback received across the two Standards is helpful in developing our thinking.
9. Consequently, before bringing analysis to the Board, we think it is helpful to first ask the Board to consider:
 - (a) key high-level differences between the feedback received across the two test Standards (paragraphs 10-11); and
 - (b) how those differences affect our planned analysis (paragraphs 12-22).

Approach to technical analysis

Key differences in feedback between IAS 19 and IFRS 13

10. A key difference in user feedback received across the two selected Standards is the extent to which existing disclosures satisfy the primary objectives of users of financial statements:

- (a) most users say IAS 19 disclosures provided by companies often *do not* meet their primary objectives. Consequently, many users would support disclosure of different information about such plans;
 - (b) conversely, most users say that IFRS 13 disclosures *do* meet their objectives. Consequently, many users said potential changes to IFRS 13 are not critical. However, users expressed concerns about the application of materiality to IFRS 13 disclosures (see *Agenda Paper IIC*). Users say entities often provide very detailed information about fair value measurements that are not material and less information about material fair value measurements.
11. With respect to both IAS 19 and IFRS 13, preparers tell us that many of today’s required disclosures are onerous to prepare and question whether they pass the cost benefit test. Furthermore, consistent with user feedback, preparers say:
- (a) questions from users about IAS 19 disclosures generally relate to the cash flow effects of pension plans; and
 - (b) they rarely get questions from users on their IFRS 13 disclosures.

How those differences affect our planned analysis

12. In light of the feedback from users, we think the potential practical benefits for stakeholders of applying the draft Guidance to the two Standards are different (see paragraphs 15 and 18). Consequently, we think the Board should approach revisions to the disclosure requirements of the two standards differently.

Specific disclosure objectives—IAS 19 and IFRS 13

13. For both Standards, we think the first step is to use the feedback received from users to develop and clearly articulate specific disclosure objectives. After completing that step, we think the Board should proceed with developing proposals for items of information that could be used to meet those objectives. This approach is also consistent with advice from ASAF that the Board should consider disclosure objectives, and the items of information that would meet those objectives, separately (see *Agenda Paper IIA*).

14. However, in terms of developing items of information that companies might use to meet those objectives, we think the Board should use different approaches for the two Standards.

Items of information—IAS 19

15. For IAS 19, we think developing specific disclosure objectives may lead to companies providing information different from the information they provide today. For example, such objectives might lead to the disclosure of improved information about the expected cash flow effects of a defined benefit plan. Based on the feedback received, we think it is possible that amendments to the disclosure requirements of IAS 19 could:
- (a) give rise to more useful information for users; and
 - (b) help preparers avoid some of the more onerous aspects of preparing today's disclosures.
16. We think the Board can best explore achieving these benefits by starting with a 'blank-page' analysis. In other words, we think the Board should first consider what information will meet the objectives of users irrespective of existing disclosure requirements. This would also include considering feedback from preparers and other stakeholders about costs and other consequences. We think this approach will be most responsive to the feedback received and will allow the Board to consider new or different disclosures that might better meet the needs of both users and preparers.
17. Having completed a 'blank-page' analysis, we think the Board should then refine its proposals by comparing them to the existing IAS 19 disclosure requirements and analysing any differences. We think this will:
- (a) help the Board to review and refine its initial proposals;
 - (b) ensure the Board considers any disclosure requirements that were developed to support recognition and measurement requirements; and
 - (c) be responsive to advice from ASAF that the Board should perform an assessment of the existing disclosure requirements (see *Agenda Paper IIA*).

Items of information—IFRS 13

18. For IFRS 13, we think developing specific disclosure objectives is unlikely to give rise to disclosure information that is fundamentally different in terms of content compared to today. Instead, we think the primary potential benefit of applying the draft Guidance to this Standard is to help preparers make more effective materiality judgements.
19. We think the Board can best achieve this benefit by clearly linking the specific disclosure objectives to existing IFRS 13 disclosure requirements. We think doing this will help preparers to better understand *why* those items are useful and, consequently, make more effective judgements about which information is material. Furthermore, we think this will be responsive to advice from ASAF that the Board should perform an assessment of the existing disclosure requirements (see *Agenda Paper IIA*).
20. Having linked today's requirements to specific objectives, we think the Board should then refine its proposals by considering:
 - (a) any existing requirements that have not been linked to a user objective;
 - (b) any items of information identified during user outreach that are not already captured (for example, information about Level 2 fair value measurements); and
 - (c) feedback from preparers and other stakeholders about costs and other consequences.

Revisit the draft Guidance

21. After completing its review of the disclosure requirements of IAS 19 and IFRS 13, we think it is important for the Board to consider:
 - (a) lessons learned from the testing process; and
 - (b) whether and how to amend the draft Guidance in the light of those lessons.
22. Furthermore, we think it is important that the Board undertake this exercise before publishing an Exposure Draft of proposed amendments to the test Standards. This will enable the Board to include information in the Basis for Conclusions that:

- (a) reflects the Board's most up to date thinking about how to improve the way it develops and drafts disclosure requirements in future; and
- (b) enables stakeholders to comment on all aspects of the draft Guidance.

Question for the Board

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Does the Board agree with the approaches described in this paper?

In particular, does the Board agree that it should approach its technical analysis of IAS 19 and IFRS 13 disclosure requirements in a way that explores:

- (a) whether disclosure of new or different information about employee benefits would more effectively meet the needs of stakeholders than today's disclosures. The Board would do this by:
 - (i) developing specific disclosure objectives;
 - (ii) using feedback from stakeholders to identify items of information that could effectively meet those objectives; and
 - (iii) refining those items of information by comparing them to existing IAS 19 disclosure requirements.
- (b) helping preparers to make more effective materiality judgements about fair value measurement disclosures. The Board would do this by:
 - (i) developing specific disclosure objectives;
 - (ii) linking the specific disclosure objectives to existing IFRS 13 disclosure requirements; and
 - (iii) refining the proposals by considering:
 - any disclosure information required by IFRS 13 that cannot be linked to a specific objective;
 - any information identified by users as useful that is not currently required by IFRS 13; and
 - feedback from preparers and other stakeholders about costs and other consequences.

Appendix—Draft Guidance for the Board and work performed to date

A1. The table below summarises the draft guidance for the Board on developing disclosure objectives and requirements ([September 2018 Agenda Paper 11A](#)) and work performed by the staff to date for IAS 19 and IFRS 13.

Draft guidance	Work performed to date and/or planned
Step 1—How the Board will use disclosure objectives	
Develop specific disclosure objectives	<ul style="list-style-type: none"> • This will form part of the detailed technical analysis that we will bring to the Board over the coming months.
Develop high-level, catch-all disclosure objectives	
Step 2—How the Board will develop the content of disclosure objectives and requirements (focused methodology)	
<i>(A) Understand the existing issue(s)</i>	
Consider undertaking the following activities: <ul style="list-style-type: none"> (a) identify the issue; (b) identify the scope of the issue; and (c) obtain stakeholder feedback on the issue. 	<ul style="list-style-type: none"> • The Board undertook these activities as part of selecting the two test Standards for review (see <i>July 2018 Agenda Paper 11D</i>).
<i>(B) Understand what information stakeholders want and why</i>	
<i>Users of financial statements</i>	
Obtain a deep understanding of the information needs of primary users	<ul style="list-style-type: none"> • We developed and implemented a tailored outreach programme with users of financial statements during November 2018 – March 2019 (see <i>Agenda Paper 11A</i> for this meeting).
Consider developing a tailored outreach programme with users	<ul style="list-style-type: none"> • We developed and implemented a tailored outreach programme with users of financial statements during

	<p>November 2018 – March 2019 (see <i>Agenda Paper 11A</i> for this meeting).</p> <ul style="list-style-type: none"> • We consulted CMAC at its March 2019 meeting. We plan to consult further at the June 2019 joint meeting of CMAC and GPF.
<p><i>Stakeholders other than users of financial statements</i></p>	
<p>Consult with other stakeholders to understand their priorities and concerns about disclosure requirements in the project.</p>	<ul style="list-style-type: none"> • We consulted with preparers and National Standard Setters during March and April 2019 (see <i>Agenda Paper 11A</i> for this meeting). • We plan to consult further at the June 2019 joint meeting of CMAC and GPF. • We will consult with other stakeholder types after the Board has developed proposed amendments to the two test Standards.
<p>In obtaining input from stakeholders other than users, the Board should consider:</p> <ul style="list-style-type: none"> (a) outreach meetings with preparers, regulators, auditors, National Standard-setters, accounting firms, accountancy bodies and others; (b) consulting with the Board’s advisory bodies and consultative groups, including the Global Preparers Forum, Accounting Standards Advisory forum and the Advisory Council; and (c) feedback from comment letters. 	<ul style="list-style-type: none"> • We consulted GPF at its March 2019 meeting. • We consulted ASAF at its April 2019 meeting. • We will consult with other stakeholder types after the Board has developed proposed amendments to the two test Standards. • We will consider comment letter feedback after the Board has published an Exposure Draft of proposed amendments to the two test Standards.

<i>(C) Understand what disclosure would be required to support proposed recognition and measurement requirements</i>	
In addition to considering stakeholder needs, the Board will also need to consider the effect of any related decisions it makes about recognition and measurement.	<ul style="list-style-type: none"> • This step is largely not applicable to this project because the Board is not making any decisions about recognition and measurement. • However, for both Standards the staff plan to consider and analyse existing disclosure requirements (see paragraphs 17 and 19 of this paper). This analysis will ensure the Board considers any disclosure requirements that were developed to support recognition and measurement requirements.
<i>(D) Perform a cost-benefit analysis</i>	
This step will be formalised and documented as part of the effects analysis developed for publication. However, the costs and benefits of project proposals should be considered as early as possible and revised throughout the life of the project. The Board may also decide to design a dedicated outreach programme to gather additional feedback on the proposed disclosure objectives and requirements.	<ul style="list-style-type: none"> • We consulted GPF (March 2019) and ASAF (April 2019) about the costs and benefits of potential disclosure objectives and requirements (see <i>Agenda Paper 11A</i>). • We plan further consultation once the Board has developed proposals. • We will recommend that the Board ask specific questions about costs and benefits as part of its Exposure Draft.
<i>(E) Understand and document the effects of the proposed disclosure objectives and requirements</i>	
The Board should draw on all acquired knowledge towards the end of a project to produce an effects analysis which is included in the final documents for publication.	<ul style="list-style-type: none"> • We plan to undertake this step at a later stage in the project.

Step 3—How the Board will draft disclosure objectives and requirements	
Use of language	<ul style="list-style-type: none"> This will form part of the detailed technical analysis that we will bring to the Board over the coming months.
Formatting and presentation within IFRS Standards	
Leveraging requirements and guidance across IFRS Standards and other IFRS publications	
Work with IFRS Taxonomy team to understand stakeholder feedback and:	
<p>Current disclosure objectives and requirements. For example:</p> <p>(a) any common application challenges or inconsistencies; and</p> <p>(b) any duplication or contradiction between requirements in IFRS Standards</p>	<ul style="list-style-type: none"> See <i>Agenda Papers 11B and 11C</i>.
Any potential issues with disclosure proposal(s)	<ul style="list-style-type: none"> We plan to undertake this work when the Board has developed a set of disclosure proposals. We also plan to undertake consultation with the IFRS Taxonomy Consultative Group at their June 2019 meeting.
Whether the disclosure proposal(s) can be incorporated into the IFRS Taxonomy	
The interaction of the disclosure proposal(s) with common reporting practice, IFRS Standards and accompanying materials such as implementation guidance and illustrative examples	
Whether disclosure proposal(s) are ‘technology neutral’—ie whether the proposal(s) can be applied effectively in both an electronic reporting format and a paper-based format	
Whether the disclosure proposal(s) can be incorporated into the IFRS Taxonomy	