

Targeted Standards-level Review of Disclosures

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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Purpose of this session

The purpose of this session is to:

- Provide an update on the Board's Targeted Standards-level Review of Disclosures project
- Describe elements of the upcoming Exposure Draft for which your feedback is particularly critical
- Explain how the Board has used feedback provided by GPF members in its proposals

For the Board to improve how it drafts disclosure sections in IFRS Standards we need your input

Project update

Reminder: What is the problem?

The Disclosure Problem:

- Not enough relevant information
- Too much irrelevant information
- Ineffective communication

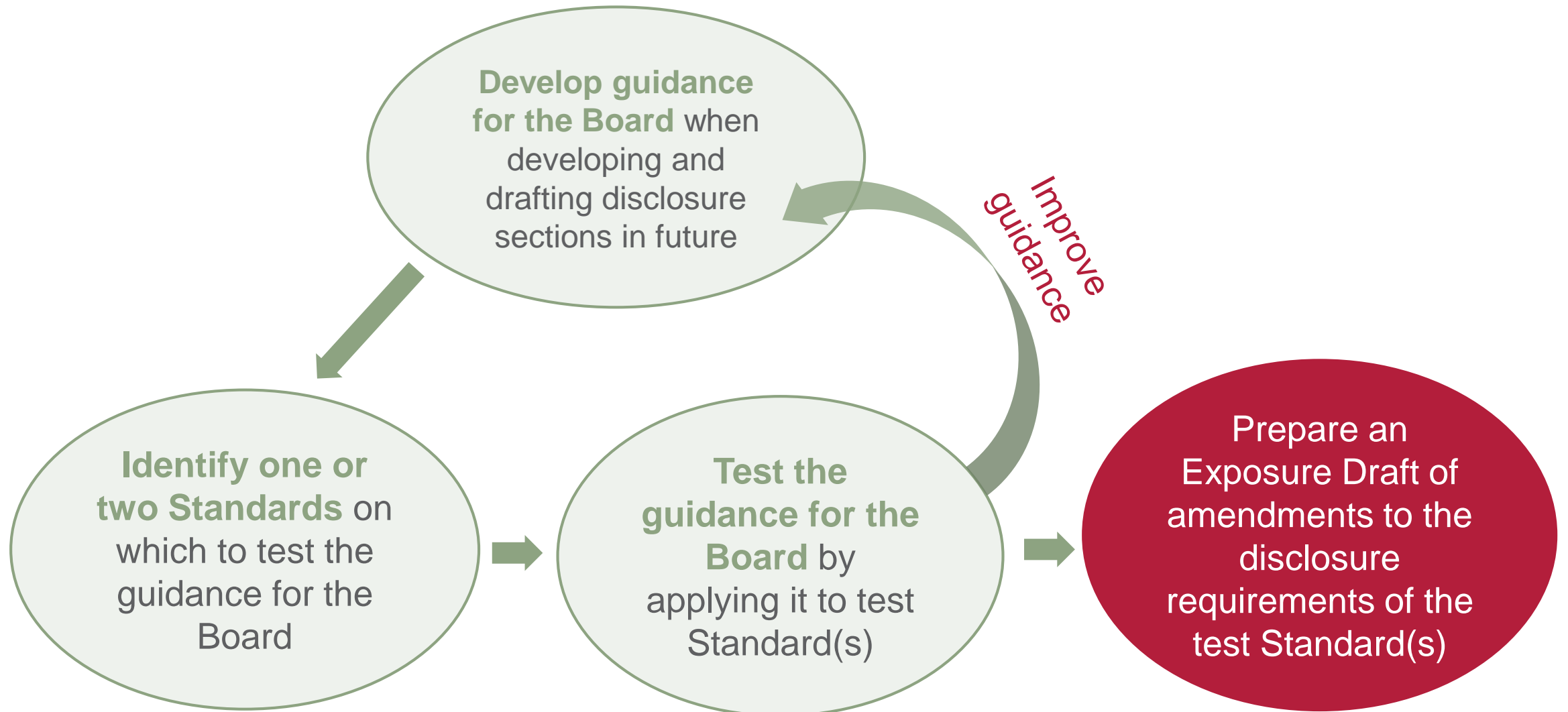
There are multiple contributors to the disclosure problem and **many stakeholders will need to be involved in finding a solution**. However, feedback indicates:

Disclosure requirements in IFRS Standards often **contribute** to the disclosure problem

Standards-level activity would be **most effective** thing the Board can do

It can be hard for companies to avoid the **checklist approach**

Reminder: the Board's approach



Timeline





Feedback on the upcoming Exposure Draft

Key considerations (1/2)

The Board's upcoming Exposure Draft will include:

Proposed amendments
to IAS 19 and IFRS 13

AND

Draft guidance for the
Board

The Board is looking for feedback on both of these areas.

In particular, the Board would like feedback on the practical consequences of moving away from prescriptive language and towards a more objectives-based approach.

The Board believes an objective based approach will help stakeholders apply more effective judgement and avoid the 'checklist'.

Key considerations (2/2)

The Board will be asking stakeholders to consider proposed amendments to IAS 19 and IFRS 13 and answer questions like:

- Will the disclosure objectives, and explanations of what users will do with the information, help an entity to... Apply effective judgement? Eliminate immaterial disclosures? Identify circumstances when additional disclosure is needed?
- Will this approach help entities to avoid the checklist approach? Applying this approach, what barriers to judgement remain?
- What will be the cost/resource consequences of this approach – in the first year of application and in subsequent years?
- Would compliance with proposals for the two test cases be feasible to audit and regulate?
- Overall, do you think this approach will lead to better information for users?

The Board will use the feedback to decide how to develop and draft disclosure sections of IFRS Standards in future



How has the Board used previous feedback from GPF Members?

Feedback from GPF Members

- In the March 2019 GPF Meeting and the June 2019 joint GPF-CMAC Meeting, we discussed user information needs on the Board's two test cases – IAS 19 and IFRS 13.
- The following slides summarise:
 - feedback from GPF Members during those meetings; and
 - how the Board has used that feedback.

IAS 19 *Employee Benefits* (defined benefit plans) (1/3)

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GPF Feedback	What did the Board tentatively decide?
<p>Cash effects</p> <ul style="list-style-type: none">• Information about the cash impact of defined benefit pension plans would be useful to users - some expect this to be the most relevant information.• Separating ‘normal’ cash contributions from special funding contributions would not be difficult.• Questions from users about employee benefits generally relate to cash. Pension plan trustees are also interested in future cash contributions from the entity.	<ul style="list-style-type: none">• Develop a disclosure objective that requires an entity to disclose information that enables a user to understand the expected effect of a defined benefit obligation on an entity’s future cash flows.• Develop a list of items of information that, whilst not mandatory, may help an entity to comply with this objective.• Include Application Guidance to explain when different methods of complying with the objective would be most appropriate and useful to users.
<p>Explanation and disaggregation of amounts in the financial statements</p> <ul style="list-style-type: none">• Support for this disclosure• However, members expressed concerns that, depending on the level of disaggregation required, this information might be costly to provide.	<ul style="list-style-type: none">• Develop a disclosure objective that requires an entity to disclose an ‘executive summary’ of its defined benefit plans.• Develop a high level disclosure objective for defined benefit plans that includes features and characteristics an entity could use to help it determine the level of disaggregation that is adequate but not excessive.

IAS 19 *Employee Benefits* (defined benefit plans) (2/3)

GPF Feedback	What did the Board tentatively decide?
<p>Narrative information about nature and characteristics of plans</p> <ul style="list-style-type: none">• Support for this disclosure	<ul style="list-style-type: none">• Develop a disclosure objective that requires an entity to disclose information that enables a user to understand risks, characteristics and management strategies.• Develop a list of items of information that, whilst not mandatory, may help an entity to comply with this objective.
<p>Sensitivity Analysis</p> <ul style="list-style-type: none">• Support for disclosure of significant assumptions used• Concerns raised about disclosing the effect of changing multiple assumptions simultaneously. Members said this would be impractical and costly – both to prepare and to audit.	<ul style="list-style-type: none">• Develop a disclosure objective that requires an entity to disclose information that enables a user to understand significant assumptions used.• Develop a list of items of information that, whilst not mandatory, may help an entity to comply with this objective. This list includes identification of reasonably possible alternative assumptions and a description of the level of measurement uncertainty but does not refer specifically to sensitivity analysis.• The Board decided that detailed sensitivities—such as those incorporating multiple assumptions—although useful to some users, would not pass the cost-benefit test.

GPF Feedback	What did the Board tentatively decide?
Disclosures that members thought would be costly or challenging to provide	
<ul style="list-style-type: none"> Explanation of differences between various pension plan valuations. 	<ul style="list-style-type: none"> This is not included in the Board’s proposals. The Board decided it would be unrealistic to expect companies to comply with such an objective for several reasons – including that different users want different valuations.
<ul style="list-style-type: none"> Schedule of expected future benefit payments to members of closed plans. 	<ul style="list-style-type: none"> Develop an objective requiring an entity to provide information that enables users to understand the time period over which payments will continue to be made. The Board did not include a schedule of expected payments in its proposals about how an entity might meet this objective. The Board thought that such information is more relevant to the financial statements of the plan itself, and does not pass the cost-benefit test.
<ul style="list-style-type: none"> Fair value of plan assets disaggregated by asset types, including information such as actual rates of return. 	<ul style="list-style-type: none"> Include information about investment strategies, classes of asset and expected returns in the list of items that, whilst not mandatory, might help an entity comply with disclosure objective about risks, characteristics and management strategies.

GPF Feedback	What did the Board tentatively decide?
<p>Explanation and disaggregation of total fair value of assets and liabilities recognised on the balance sheet</p> <ul style="list-style-type: none">• Support for this disclosure	<ul style="list-style-type: none">• Develop an objective that requires disclosure of information to help a user understand the amount, nature and characteristics of instruments in the fair value hierarchy.• Include explanatory guidance to help an entity determine the appropriate classes of asset and liability for disclosure.
<p>Information about how an entity has determined the level of the fair value hierarchy to which an instrument belongs</p> <ul style="list-style-type: none">• Support for this disclosure	<ul style="list-style-type: none">• To explain, within the proposed IFRS 13 objectives, that one thing users are looking to assess is how subjective the assessment of where an entity's instruments sit within the fair value hierarchy.• Develop items of information that, whilst not mandatory, may help an entity to achieve this.
<p>Sensitivity analysis</p> <ul style="list-style-type: none">• Costly to provide wider sensitivity analysis than is the case today• Risk of disclosure of sensitive information: detailed sensitivities could provide information about third party cash flows	<ul style="list-style-type: none">• Disclosure objective focusses on information to enable users to understand the reasonably possible fair values at the reporting date.• Developed a list of items of information that, whilst not mandatory, may help an entity to meet the objective. This list was developed in light of joint discussions between GPF and CMAC about how to most effectively walk the cost-benefit line.

GPF Feedback

Level 2 disclosures

- Detailed Level 2 disclosures would not be useful to users

What did the Board tentatively decide?

- In making decisions about IFRS 13 disclosures, the Board has avoided making reference to particular levels of the fair value hierarchy*.
- The Board thought this will help companies to:
 - avoid applying disclosure requirements to all Level 3 items in a 'checklist' fashion;
 - eliminate immaterial disclosure; and
 - think more broadly about what should be disclosed about their material fair value measurements.

*The Board will further discuss the application of this approach at its February 2020 Board Meeting. This meeting takes place after finalising this paper but before GPF meets. We will provide a verbal update on this during the GPF meeting.

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