

Targeted Standards-level Review of Disclosures

Emerging Economies Group Meeting

Agenda Paper 3
30 November-1 December 2020

Project	Targeted Standards-level Review of Disclosures		
Paper topic	Overview of forthcoming proposals		
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Purpose of this session

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- IASB staff will provide EEG members with an overview of the forthcoming proposals
- EEG members will share their views on those proposals

The disclosure problem

- The Board has identified three main concerns about disclosures in financial statements:
 - not enough relevant information
 - too much irrelevant information
 - ineffective communication



Disclosure Initiative—overview of projects

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Active projects

Targeted Standards-level Review of Disclosures

Subsidiaries that are SMEs

Disclosure of accounting policies

Completed projects

Amendments to IAS 1 and IAS 8—Definition of Material

Amendments to IAS 7 to improve disclosure of changes in financing liabilities

Amendments to IAS 1 to remove barriers to application of judgment

Materiality Practice Statement

Better Communication Case Studies

Principles of Disclosure research project

What has the IASB heard?

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



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



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



Standards-level activity would help **other stakeholders** play their part in addressing the disclosure problem

How do the IASB's proposals respond?

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Disclosure sections based on **stakeholder needs**

Seek **early input** from users of financial statements, companies and others

Understand (and balance?) **costs and benefits**



Detailed **disclosure objectives**

Explain **why** users of financial statements want information and **what** they will do with it

Help companies to determine what information is (and isn't) **material** in their case

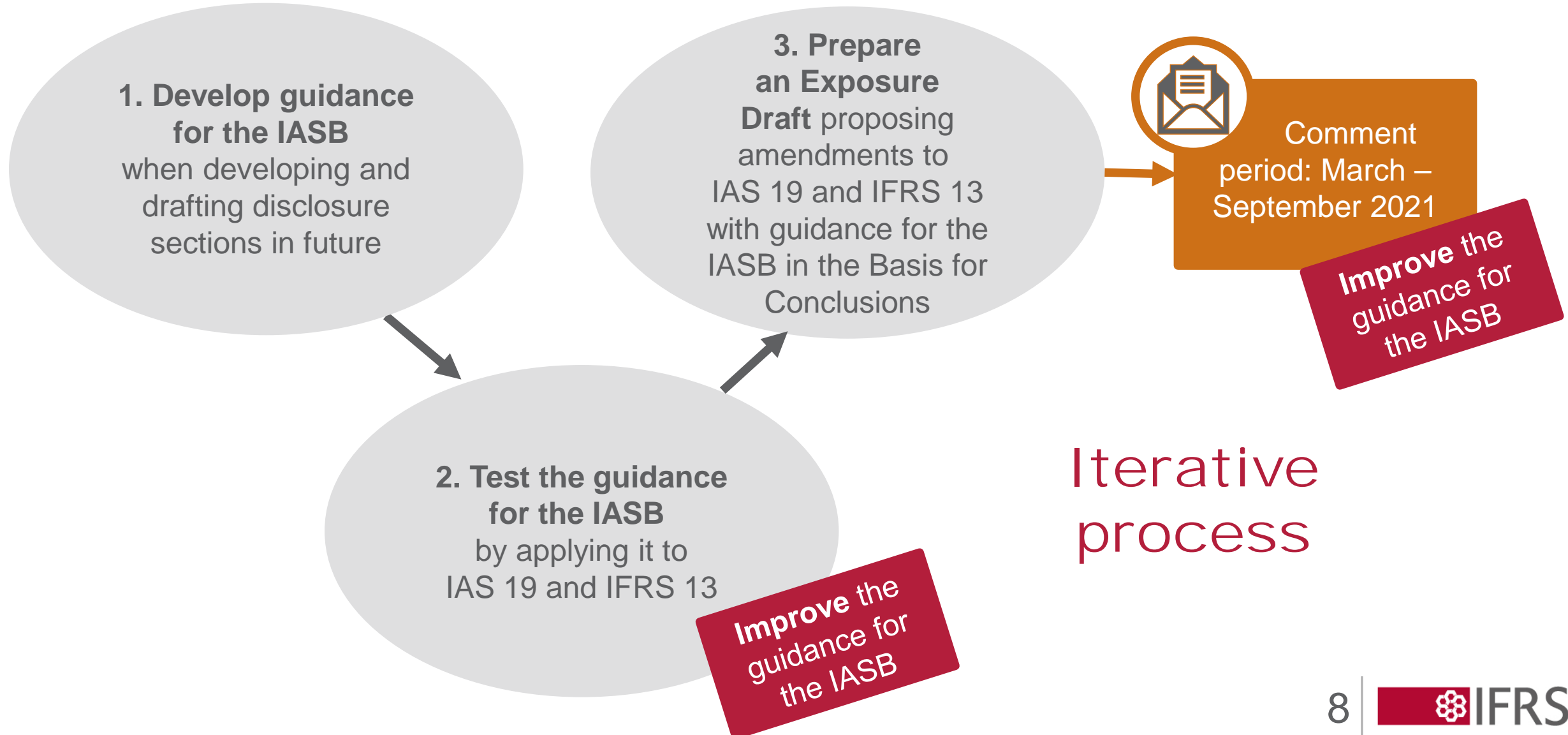


Language that encourages application of **judgement**

Place **compliance requirement** ('shall') on satisfying disclosure objectives

Items of information help companies determine how to satisfy disclosure objectives ... they are **not a checklist**

Project approach





Key messages from stakeholders

Focus on the risk: defined benefit plans

Users prioritise information about expected cash flow effects

Ineffective communication of effects on primary financial statements is a problem

Many of today's disclosures are onerous to prepare



IASB's main proposals

Disclosure objectives that explain and focus on key user needs. For example:

- 'Executive summary' of defined benefit plans
- Cash flow effects of defined benefit plans
- Risk exposure from defined benefit plans

Companies are **required** to satisfy disclosure objectives.

The proposals include **items of information** to help companies judge how best to do this.

Defined benefit plans - examples

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Include specific disclosure objectives for entities to disclose information about ...

Amounts and the components of those amounts in the primary financial statements

For example

The cost of all defined benefit plan arrangements recognised in the group income statement is shown below:

	2019 (£m)
Current service cost (including administration expenses)	(1.5)
Past service cost	(1.6)
Net interest expense	(1.2)
Total amount recognised in the income statement	(4.3)

The net pension obligation in respect of defined benefit plans reported in the group balance sheet are as follows:

At 31 March 2019	Assets (£m)	Present value of liabilities (£m)	Deficit (£m)
UK pension plan	190.5	(251.9)	(61.4)
US pension plan	130.1	(146.5)	(16.4)
Other plans	16.2	(16.7)	(0.5)
Retirement benefit obligation	336.8	(415.1)	(78.3)
Deferred tax asset			13.2
Net pension obligation			(65.1)

Defined benefit plans - examples

Include specific disclosure objectives for entities to disclose information about ...

Expected effects of the defined benefit obligation on the entity's future cash flows and the nature of those effects

For example

The Group has agreed a funding plan with the Plan Trustees that addresses the funding deficit over a maximum period of 15 years. The funding deficit as at 30 June 2017 was £8.6 billion demonstrating that the market value of the plan assets are not sufficient to meet the expected future benefit payments.

The deficit will be met over a period of 10 years. The Group is scheduled to make future deficit payments to the pension scheme in line with the table below:

Year to 31 March	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Deficit Contribution (£m)	850	2,000	1,250	900	900	907	907	907	907	907

Ordinary cash contributions to the scheme of £264 million have been made in the current year, £303 million will be made in 2019 and then rising by 3% per annum to 2027.

Defined benefit plans - examples

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Include specific disclosure objectives for entities to disclose information about ...

nature of the benefits provided by the plans, risks the plans expose the entity to and strategies for managing the plans and the associated risks

time period over which payments will continue to be made to members of plans that are closed to new members and for which the entity still has an obligation

significant actuarial assumptions

significant drivers of changes in the net defined benefit liability or asset

Include a high-level, catch-all objective that ...

captures the key information needs of users

addresses aggregation and disaggregation of information provided



Key messages from stakeholders

Proper application of materiality is critical. Detailed disclosures often:

- focus on immaterial fair value measurements
- do not contain information about material fair value measurements

Today's disclosures are onerous to prepare

Users rarely ask a company questions about its detailed fair value measurement disclosures



IASB's main proposals

Disclosure objectives that explain and focus on key user needs. For example:

- Exposure to uncertainties
- Level of detail at which relevant information is not obscured by large amounts of insignificant detail

Companies are **required** to satisfy disclosure objectives.

Items of information will help companies to apply judgement—there is no 'Level 3 checklist'

Fair value measurement - examples

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Include specific disclosure objectives for entities to disclose information about ...

amount, nature and characteristics of assets and liabilities in each level of the fair value hierarchy

measurement uncertainties and reasonably possible fair value measurements

significant drivers of changes in fair value measurements

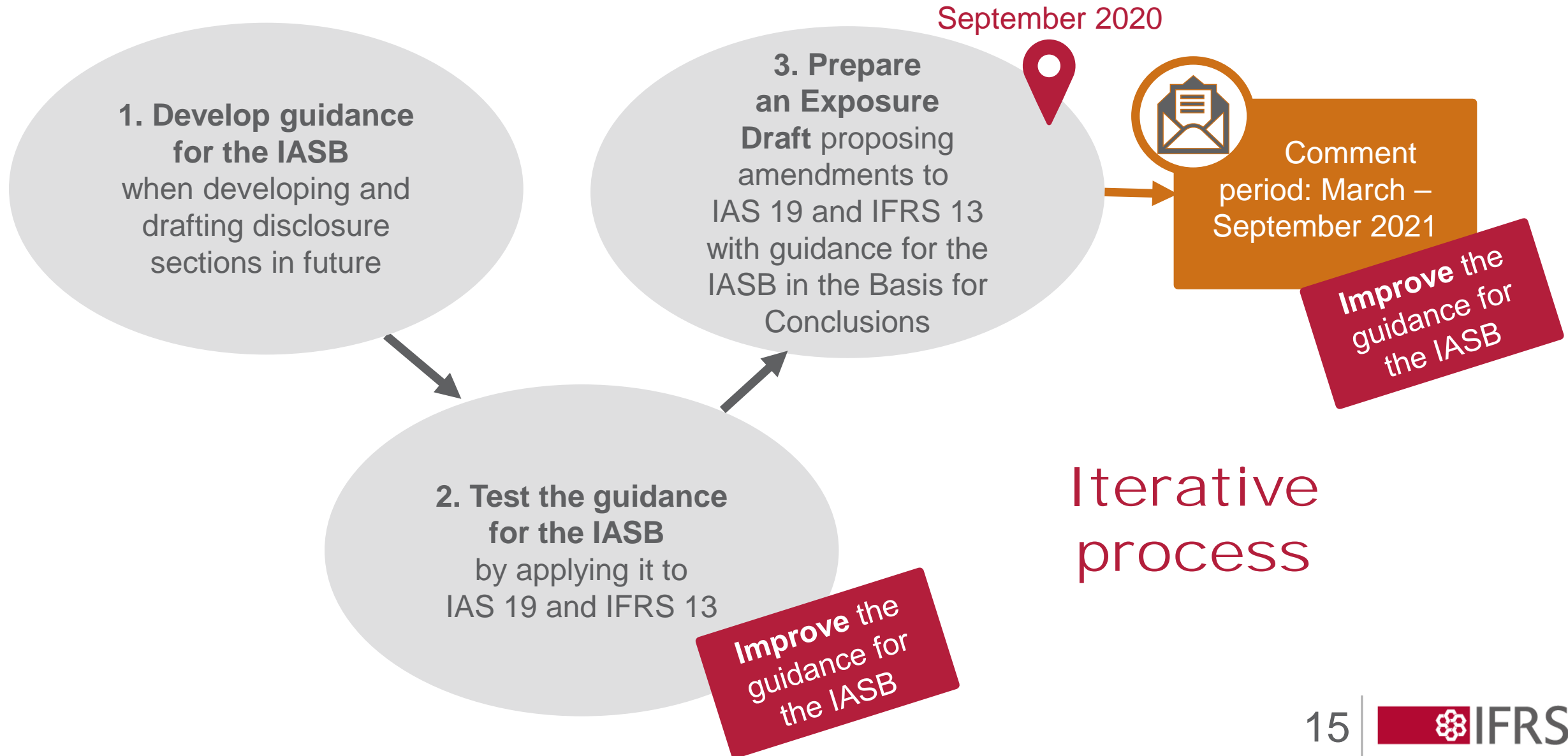
assets and liabilities not measured at fair value but for which fair value is disclosed

Include a high-level, catch-all objective that ...

captures the key information needs of users

addresses level of detail of information provided

Project approach



How can you help?

The IASB's upcoming Exposure Draft will include:

Draft guidance for the
IASB

AND

Proposed amendments to
IAS 19 and IFRS 13

The IASB will be seeking feedback on both of these areas, for example:

? Will the approach help stakeholders to:

- Avoid the checklist approach?
- Apply effective judgement?
- Eliminate immaterial disclosures?
- Identify when additional disclosure is needed?

? Will the proposals:

- Lead to disclosures that are feasible to audit and regulate?
- Lead to better information for users?
- Have cost or resource consequences?
In the first year? In subsequent years?

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