IFRS® Foundation

Disclosure Requirements in IFRS Standards—A Pilot Approach

Joint CMAC-GPF meeting
June 2021
Agenda Paper 2

Disclosure Initiative—Targeted Standards-level Review of Disclosures project

Purpose of this session and overview of materials

Purpose of this session

For CMAC and GPF members to discuss and provide feedback on the Board's proposed new approach to developing disclosure requirements in IFRS Standards, using the proposed amendments to IAS 19 and IFRS 13 as test cases.

We would like members' views on whether the proposed amendments:

1. Accurately reflect user information needs and clearly communicate those needs to preparers
2. Would give preparers a sufficient basis for:
   - applying effective judgement about what information is material and, therefore, necessary to satisfy required disclosure objectives?
   - eliminating immaterial information from their employee benefit and fair value measurement disclosures?
3. Would result in disclosures about employee benefits and fair value measurement that are more useful to users than the current requirements?

Breakout discussion—Employee Benefits

We will ask **break out groups one and two** to focus on the Exposure Draft proposals for defined benefit plans. The proposals contain six specific disclosure objectives. To ensure that the discussion covers all of these, we will ask the break out groups to discuss the following specific disclosure objectives, answering the questions on slide 3 for each one.

Break out group one IAS 19—Defined benefit plans		***Slides***
1	Amounts in the primary financial statements ***Example disclosure provided***	***30–32***
2	Nature of, and risks associated with, defined benefit plans	***33–34***
3	Reasons for changes in the amounts recognised in the statement of financial position	***35***

Break out group two IAS 19—Defined benefit plans		***Slides***
1	Expected future cash flows relating to defined benefit plans ***3 Example disclosures provided***	***37–42***
2	Measurement uncertainties associated with the defined benefit obligation	***43***
3	Future payments to members of defined benefit plans that are closed to new members	***44***

Breakout discussion—Fair Value Measurement

We will ask **break out group three** to discuss the specific disclosure objectives proposed in the Exposure Draft for fair value measurement and answer the questions on slide 3 for each one.

Break out group 3 **IFRS 13—Fair Value Measurement**		***Slides***
1	Assets and liabilities within each level of the fair value hierarchy ***Example disclosure provided***	***46–49***
2	Measurement uncertainties associated with fair value measurement	***50***
3	Reasonably possible alternative fair value measurements	***51***
4	Reasons for changes in fair value measurements	***52***

Overview of materials

To prepare for the discussion, it is important that members read the briefing materials—particularly those on the Board's proposed approach (slides 16–24)—before reviewing the materials for their breakout group. The table below summarises the materials in this pack.

Past discussions with CMAC-GPF

- At the separate March 2019 meetings of CMAC and GPF:
  - We sought members' views on the feedback from our outreach with users about employee benefits and fair value measurement disclosures.
  - CMAC members provided feedback on whether they agreed with user objectives and their suggested items of information that could be used to meet those objectives.
  - GPF members shared their views on costs and other consequences of the suggested items of information.
- At the June 2019 joint meeting of CMAC and GPF:
  - Break out groups discussed example disclosures that could be used to satisfy user objectives relating to employee benefit and fair value measurement disclosures.
  - We sought members' views on whether the example disclosures would be effective at meeting user needs, how costly the examples would be to prepare and whether there were any alternative disclosures that would meet user needs but be less costly to prepare

Targeted Standards-level Review of Disclosures

Project background and overview

IFRS

2017–2021 central theme of the Board's work

Better Communication in Financial Reporting

Financial statements

Information outside the financial statements

Content

Primary Financial Statements

Disclosure Initiative

Management Commentary

Delivery

IFRS Taxonomy

The disclosure problem

The Board has heard three main concerns about disclosures in financial statements:

Overview of Disclosure Initiative projects

Completed projects

addressed aspects of the overall disclosure problem

- Amendments to IAS 1 and IAS 8 to clarify the definition of material
- Amendments to IAS 7 to improve disclosure of changes in financing liabilities
- Amendments to IAS 1 to remove barriers to applying judgment
- Materiality Practice Statement
- Better Communication Case Studies
- Disclosure of accounting policies
- Principles of Disclosure research project

research showed that an **overarching response to help solve the overall disclosure problem** is still needed

Active projects

- Subsidiaries that are SMEs
- Targeted Standards-level Review of Disclosures

Project objective and timeline

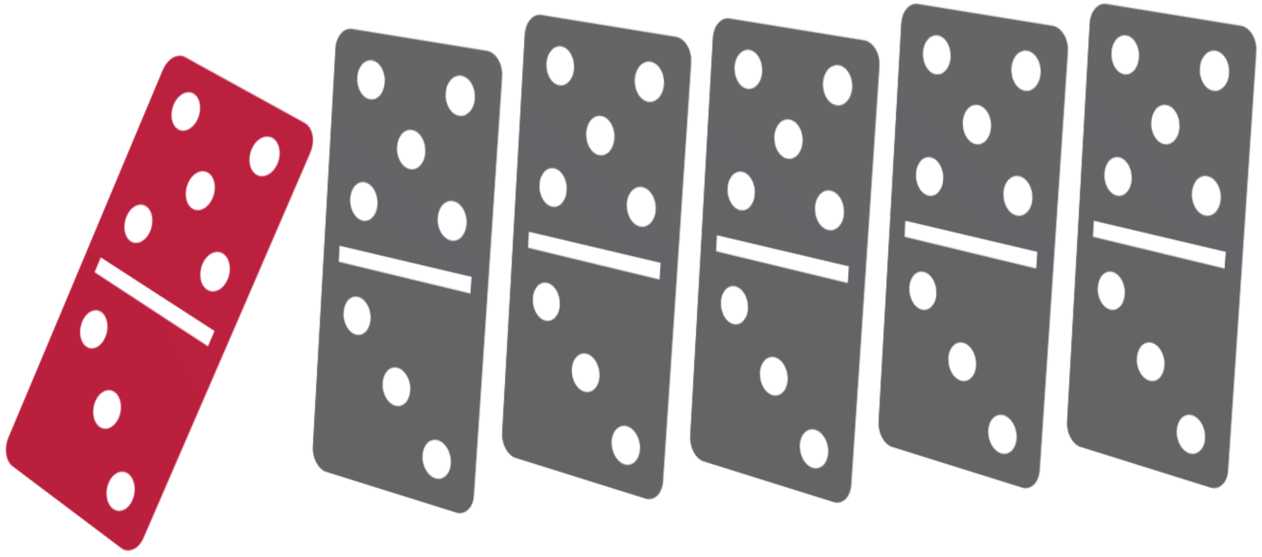
objective

To improve the Board's approach to developing disclosure requirements in IFRS Standards, so companies can enhance their judgements in preparing the notes and provide more useful information for investors

2018	2018–2020	March 2021	October 2021	Q1 2022
Project added in light of feedback from the Principles of Disclosure research project	Board discussions to develop the Exposure Draft	Exposure Draft published for public comment	Comment period (ends 21 October)	Feedback summary and Board discussions to decide project direction

Catalyst for change

"Addressing the overall disclosure problem will require all those involved in financial reporting to play their part"



The Board

Companies, auditors, regulators & others

By taking steps to improve the requirements in IFRS Standards, the Board would **kick-start the process and enable stakeholders to improve the way they approach financial statement disclosures**

Project approach

1. Develop proposed Guidance summarising the Board's proposed new approach to developing and drafting disclosure requirements

→

2. Test the proposed Guidance by applying it to IFRS 13 and IAS 19

Improve the Board's guidance

↓

3. Prepare an Exposure Draft of the proposed Guidance and proposed amendments to IFRS 13 and IAS 19

→

Comment period: March – October 2021

Improve the Board's guidance

Iterative process

The Board's proposals

Proposed Guidance for the Board when developing and drafting disclosure requirements in future	A Disclosure requirements based on **stakeholder needs**	The Board would enhance its engagement with investors, companies and others, seeking input even earlier in the standard-setting process.
	B Detailed **disclosure objectives** in individual IFRS Standards	The Board would develop objectives that describe investor information needs in detail. Companies can only meet these objectives by applying judgement.
	C Language that encourages application of **judgement**	The Board would place the compliance requirement ('shall') on disclosure objectives, and minimise requirements to disclose particular items of information.

Test the proposed Guidance by applying it to the test Standards

Proposed amendments to IFRS 13 and IAS 19	• Require companies to exercise judgement by satisfying disclosure objectives that describe investor information needs. • Provide items of information—that are typically not mandatory—to help companies judge how best to satisfy specific disclosure objectives.

Proposals in the Exposure Draft

➊ Proposed Guidance for the Board

IFRS

Overview of the proposed Guidance for the Board

What stakeholders say	Board's main proposals
Companies may not always understand why information is useful, so they find it difficult to make effective judgements	A **Engage investors even earlier** in the standard-setting process, and then develop specific disclosure objectives based on their information needs
The easiest way to achieve compliance is to apply disclosure requirements like a checklist	B Require companies to comply with disclosure objectives that can only be met **by applying judgement**
Complying with high volumes of prescriptive requirements does not leave time to apply materiality judgements	C **Minimise requirements to disclose particular items of information**, thus removing a perceived compliance burden

Disclosure requirements based on stakeholder needs

What is the issue?

Companies may not always understand why information is useful, so they find it difficult to make effective judgements

Board's main proposals

Understand in detail what investors want:

- What information is useful and why
- What analysis they intend to perform
- How detailed the information needs to be
- Whether information is critical or 'nice-to-have'

Clearly explain investor needs in the Standards

Develop specific disclosure objectives, along with explanations of what investors may do with the information provided

Disclosure requirements based on stakeholder needs

Consult other stakeholders to understand in detail their views on:

- investor information needs
- various disclosures that could meet investor information needs
- information that may be useful to investors but not required by the Standards
- cost, audit and regulatory consequences of current disclosure requirements
- cost, audit and regulatory consequences of potential disclosure proposals

Detailed disclosure objectives

What is the issue?

The easiest way to achieve compliance is to apply disclosure requirements like a checklist

Board's main proposals

Require companies to comply with disclosure objectives. Compliance can only be achieved by applying judgement.

Overall disclosure objective

- describe overall information needs of investors
- require companies to assess whether the information provided in the notes by complying with specific disclosure objectives meets overall investor needs (ie whether additional information is needed)

Specific disclosure objectives

- describe detailed information needs of investors
- require companies to disclose all material information to enable those specific needs to be met

Satisfying specific disclosure objectives

To help companies apply judgement in determining what to disclose to comply with specific disclosure objectives, the Board would:

- supplement each specific disclosure objective with an explanation of why investors want information and what they may do with it
- identify items of information to meet each specific disclosure objective
- explicitly link every item of information to one or more specific disclosure objectives

Language that encourages judgement

What is the issue?

Complying with high volumes of prescriptive requirements does not leave time to apply materiality judgements

Board's main proposals

- Place the compliance requirement on disclosure objectives, and not on items of information. This would mean a company is required to **focus on making effective materiality judgements**.
- Minimise requirements to disclose particular items of information. This would **remove a perceived compliance burden** and make clear that only material information should be disclosed.

Language that encourages judgement

Current approach	Headline disclosure objective (when provided)	'An entity **shall** disclose…'	Particular items of information	'An entity **shall** disclose…'
Board's proposals	Overall and specific disclosure objectives	'An entity **shall** disclose…'	Particular items of information	'**While not mandatory**, the following information **may enable** an entity to meet the specific disclosure objective…'

Using language that the Board expects to be most effective in **shifting the focus away from applying disclosure requirements like a checklist**

The proposed package

Ensures that **effective communication with investors** is the only way to achieve compliance with disclosure requirements in the Standards

Content of the disclosure section in an IFRS Standard	Requirement
An overall disclosure objective	✓
Specific disclosure objective(s)	✓
Further details to help companies determine how to satisfy each specific disclosure objective:	
Supporting explanation of what investors may do with information provided	✗
Items of information to meet each specific disclosure objective	...

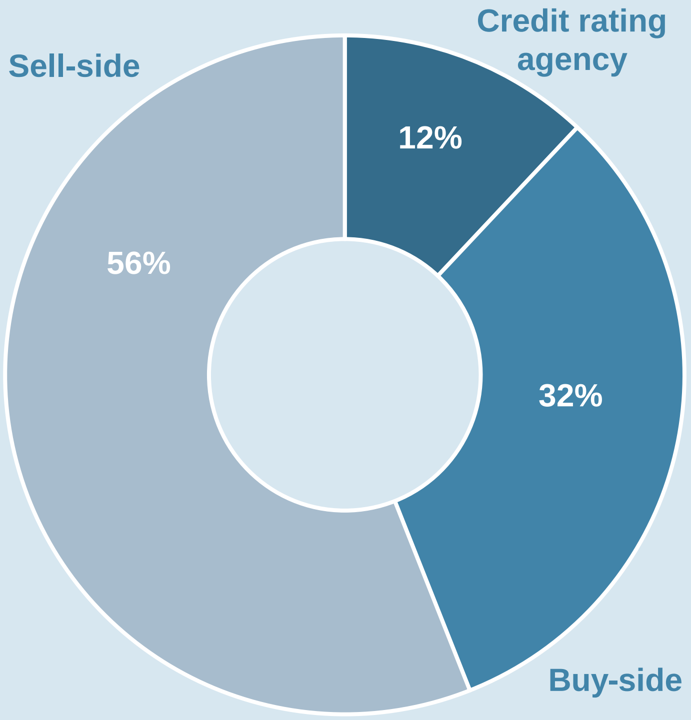
✓ Yes ✗ No ... Not a requirement in most cases

Proposals in the Exposure Draft

❷ Proposed amendments to IFRS 13 and IAS 19—overview

Proposals based on stakeholder needs

Investors



Outreach with **35 investors** in individual or small group meetings

Other stakeholders

- Global Preparers Forum
- Capital Markets Advisory Committee
- Accounting Standards Advisory Forum
- IFRS Taxonomy Consultative Group

Outreach with the **Board's consultative groups** to discuss investor information needs and how those needs could be met

Proposed amendments to IFRS 13—overview

Key messages from stakeholders

Proper application of materiality is critical. Detailed disclosures often:

- focus on immaterial fair value measurements; and
- do not contain enough information about material fair value measurements.

Today's disclosures are onerous to prepare

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

Board's main proposals

- **Disclosure objectives that explain and focus on key investor needs**—for example, information about a company's exposure to uncertainties.
- Require companies to focus on the appropriate level of detail.
- Removal of a perceived Level 3 checklist by avoiding reference to particular levels of the fair value hierarchy.

Companies are **required** to satisfy disclosure objectives. Items of information will help companies to apply judgement.

Proposed amendments to IAS 19—overview

Key messages from stakeholders

Focus on the risk: defined benefit plans

Investors prioritise information about future cash flow effects of defined benefit obligations

Ineffective communication about the effect of defined benefit plans on the primary financial statements is a problem

Many of today's disclosures are onerous to prepare

Board's main proposals

- **Disclosure objectives that explain and focus on key investor needs**—for example:
  - ✓ an 'executive summary' of amounts in the primary financial statements for defined benefit plans.
  - ✓ information about the future cash flow effects and risk exposure of defined benefit plans.
- Removal of less decision-useful and costly information, such as a detailed sensitivity analysis.

Companies are **required** to satisfy disclosure objectives. Items of information will help companies to apply judgement.

Proposed amendments to IAS 19—discussion materials for break out group one

IFRS

1. Amounts in the primary financial statements

Specific disclosure objective:

An entity shall disclose information that enables users of financial statements to understand the amounts, and components of those amounts, arising from defined benefit plans during the reporting period in the statements of financial position, financial performance and cash flows.

The information is intended to help users:

(a) navigate detailed disclosures about defined benefit plans and reconcile them to the aggregated amounts presented in the primary financial statements; and

(b) identify amounts to include in their analyses.

Mandatory disclosure information

To meet this disclosure objective, an entity is required to disclose:

(a) the amount of the defined benefit cost included in the statement of profit or loss, identifying its components, including current service cost, past service cost, gain or loss on settlement, and net interest on the net defined benefit liability;

(b) the amount of the defined benefit cost in the statement presenting comprehensive income, identifying its components, including actuarial gains and losses and return on plan assets excluding amounts included in (a);

(c) the amount of the net defined benefit liability (asset) in the statement of financial position, identifying its components, including fair value of the plan assets, present value of the defined benefit obligation, and the effect of the asset ceiling;

(d) the deferred tax asset or liability arising from the defined benefit plans (or a cross-reference to where that information is disclosed elsewhere in the financial statements); and

(e) the amounts in the statement of cash flows, identifying their components, including contributions by the entity into the defined benefit plans.

Amounts in the primary financial statements relating to defined benefit plans—Example (page 1 of 2)

Facts

At 31 March 20X3, the Group operated a number of plans for the benefit of its employees throughout the world. The Group operates defined benefit plans in the United States, United Kingdom, Germany, Greece, and Zimbabwe. The defined benefit plans with the largest membership are in the United States and the United Kingdom.

Example disclosure

Group statement of financial performance

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

		CU
	20X3	**20X2**
Current service cost	33	45
Past service cost	7	6
Net interest charge	39	26
Recognised in the statement of profit or loss	**79**	**77**
Actuarial loss (gain) arising from changes in financial assumptions	64	(50)
Actuarial loss arising from changes in demographic assumptions	10	–
Return on plan assets excluding amounts in the net interest charge	6	10
Recognised in the statement presenting comprehensive income	**80**	**(40)**
Total recognised in the statement of financial performance	**159**	**37**

Amounts in the primary financial statements relating to defined benefit plans—Example (page 2 of 2)

Group statement of financial position

The net defined benefit obligation in respect of defined benefit plans recognised in the group statement of financial position is analysed as follows:

				CU
	20X3			
	UK plan	US plan	Other plans	**Total**
Fair value of plan assets	3,479	1,088	46	**4,613**
Present value of defined benefit obligation	(3,923)	(1,329)	(24)	**(5,276)**
Surplus (deficit)	**(444)**	**(241)**	**22**	**(663)**

				CU
	20X2			
	UK plan	US plan	Other plans	**Total**
Fair value of plan assets	3,326	1,017	20	**4,363**
Present value of defined benefit obligation	(3,750)	(1,226)	(40)	**(5,016)**
Surplus (deficit)	**(424)**	**(209)**	**(20)**	**(653)**

The Group held a deferred tax asset relating to its defined benefit obligations of CU112 million in 20X3 and CU109 million in 20X2. More information about the Group's deferred tax balances can be found in Note Y.

Group statement of cash flows

Included in the group statement of cash flows are CU125 million of regular contributions and CU208 million of contributions to reduce the deficit as at 20X3.

2. Nature of, and risks associated with, defined benefit plans (page 1 of 2)

Specific disclosure objective:

An entity shall disclose information that enables users of financial statements to understand the:

(a) nature of the benefits provided by the defined benefit plans;

(b) nature and extent of the risks, in particular the investment risks, to which the defined benefit plans expose the entity; and

(c) strategies that the entity has in place to manage the defined benefit plans and the identified risks.

The information is intended to help users:

Assess how an entity intends to deliver the benefits promised to members of the defined benefit plans, and evaluate how the risks associated with those plans may affect the entity's ability to deliver those benefits in future periods.

2. Nature of, and risks associated with, defined benefit plans (page 2 of 2)

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) a description of the nature of the benefits provided by the plans.

(b) the status of the defined benefit plans, such as whether the plans are open or closed to new members.

(c) a description of plan amendments, curtailments and settlements in the reporting period.

(d) a description of how the plans are governed and managed, including any regulatory framework that affects how the plans operate.

(e) a description of plan-specific investment risks, including significant concentrations of risks. For example, if plan assets are primarily invested in one class of investments, an explanation of the risks to which such a concentration exposes the entity.

(f) a description of the policies and processes used by the entity, or the trustees or managers of the plans, to manage the identified risks.

(g) a description of the investment strategies for the plans, such as the use of asset-liability matching strategies.

(h) a breakdown of the fair value of plan assets by classes of assets that distinguish the risks and characteristics of those assets. Such a breakdown could include the fair value of the entity's transferable financial instruments held as plan assets and the fair value of plan assets used by the entity, such as property occupied by the entity.

(i) the expected return on the plan assets.

3. Reasons for changes

Specific disclosure objective:

An entity shall disclose information that enables users of financial statements to understand the significant reasons for changes in the amounts recognised in the statement of financial position that relate to the defined benefit plans from the beginning of the reporting period to the end of that period.

The information is intended to help users:

Evaluate how transactions and other events during the reporting period that relate to the defined benefit plans have affected the entity's financial position and performance, and therefore identify amounts to include in their analyses

Mandatory disclosure information

To meet this disclosure objective, an entity is required to disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the net defined benefit liability (asset).*

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) a narrative explanation or tabular reconciliation of the significant reasons for changes in reimbursement rights.

(b) a description of the relationship between reimbursement rights and the related defined benefit obligation.

* A list of possible reasons for changes is provided in the proposals

Proposed amendments to IAS 19—discussion materials for break out group two

1. Expected future cash flows related to defined benefit plans (page 1 of 3)

Specific disclosure objective:

An entity shall disclose information that enables users of financial statements to understand the expected effects of the defined benefit obligation recognised at the end of the reporting period on the entity's future cash flows and the nature of those effects.

The information is intended to help users:

(a) assess the effect of the defined benefit obligation on the entity's future cash flows; and

(b) evaluate how the defined benefit obligation may affect the entity's economic resources, for example its ability to pay dividends.

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) a description of funding agreements or policies that affect expected future contributions to meet the defined benefit obligation recognised at the end of the reporting period. Such agreements could include those reached with trustees or managers of the plans.

(b) quantitative information about expected future contributions to meet the defined benefit obligation recognised at the end of the reporting period. Such information could include expected future contributions to the plan for funded plans or expected payments to plan participants for unfunded plans.

(c) a description of regulatory or other agreements that affect expected future contributions. Information about such agreements could include known minimum funding requirements or agreed funding commitments in appropriate time bands.

(d) information about the expected pattern or rate of expected future contributions. For example, whether expected future contributions are expected to be greater than, similar to or less than contributions made in the current reporting period, and why.

continued…

1. Expected future cash flows related to defined benefit plans (page 2 of 3)

Mandatory disclosure information (emphasis added)

An entity provides information about the expected cash flow effects of its defined benefit obligation recognised at the end of the reporting period to meet the disclosure objective in paragraph 147J. However, an entity may provide information about the expected future cash flow effects for the defined benefit plan as a whole, without differentiating between those that meet the defined benefit obligation recognised at the end of the reporting period and other expected future cash flows, if the entity believes such information would better meet the disclosure objective. **An entity shall explain the method used in determining the information to provide to meet the disclosure objective in paragraph 147J. Paragraphs A2–A7 of IAS 19 provide related application guidance.**

Application guidance

A2 When determining information to disclose about expected cash flow effects of defined benefit obligations, an entity shall consider the nature of the plans, how the plans are managed and the jurisdiction in which the plans operate. An entity may also consider the information about future cash flows that is regularly reviewed by trustees or managers of the plans.

A3 To assist users of financial statements in assessing the effect of defined benefit obligations on an entity's future cash flows and in evaluating how the obligations may affect the entity's economic resources, the disclosure objective in paragraph 147J of this Standard requires an entity to provide information about the expected effects of the defined benefit obligation recognised at the end of the reporting period on the entity's future cash flows.

A4 An entity would normally meet the disclosure objective by disclosing only the expected future cash flows that the entity will contribute to the plans to meet the defined benefit obligation recognised at the end of the reporting period. The information provided through this approach would directly meet the requirement in the disclosure objective. Examples of factors an entity considers in taking this approach include:

1. Expected future cash flows related to defined benefit plans (page 3 of 3)

Application guidance

A4 (cont.)

(a) whether its expected future contributions are limited only to addressing the defined benefit obligation at the end of the reporting period. This might be the case, for example, if the entity's defined benefit plans are closed to new members and to the further accrual of benefits to current members.

(b) whether the entity determines future contributions to address the defined benefit obligation at the end of the reporting period separately from other future contributions for future employee services.

A5 The items of information described in paragraphs 147L(a)–(b) of this Standard may enable an entity to meet the disclosure objective in the circumstances described in paragraph A4.

A6 However, for some entities, an alternative way to satisfy the disclosure objective in paragraph 147J could be to disclose the expected future cash flows for the defined benefit plans as a whole, without differentiating between expected future cash flows to meet the defined benefit obligation recognised at the end of the reporting period and other expected future cash flows. The information provided through this approach would go beyond the requirement in the disclosure objective. In assessing whether to take this approach, an entity considers whether it cannot reasonably determine future contributions to address the defined benefit obligation recognised at the end of the reporting period separately from future contributions for future employee services. This might be the case, for example, if:

(a) the entity's defined benefit plans are still open to new members or to the accrual of benefits to current members; or

(b) the specific laws or regulations governing expected future contributions are specified for the plans as a whole.

Expected future cash flows relating to defined benefit plans—Example 1 of 3

Expected future contributions to meet the defined benefit obligation at the end of the reporting period based on management expectations

Facts

The Group operates a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 20X1 and closed to future accrual for current employees on 30 September 20X2. At 31 December 20X3, the net defined benefit liability was CU663 million demonstrating that the fair value of the plan assets is insufficient to meet the expected future benefit payments.

Example disclosure

The Group has no specific arrangements with the plan trustees on how to address the deficit as at the end of the current reporting period. However, the Group expects to reduce that deficit by making additional total contributions of approximately CU120 million each year over the next six annual reporting periods. This estimate reflects only the expected future contributions to meet the deficit at the end of the current reporting period. This estimate of future contributions, which will only be made to the extent the deficit remains at the end of each reporting period, has been developed upon the advice of professional advisers and in-house experts.

Expected future cash flows relating to defined benefit plans—Example 2 of 3

Expected future contributions to meet the defined benefit obligation at the end of the reporting period based on agreements with plan trustees or managers

Facts

The Group operates a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 20X1 and closed to future accrual for current employees on 30 September 20X2. At 31 December 20X3, the net defined benefit liability was CU663 million demonstrating that the fair value of the plan assets is insufficient to meet the expected future benefit payments.

Example disclosure

The Group has specific arrangements with the plan trustees to address the deficit as at the end of the current reporting period. The Group expects to reduce that deficit over six years:

						CU
	20X4	**20X5**	**20X6**	**20X7**	**20X8**	**20X9**
Expected contributions to reduce the deficit	103	133	133	133	133	85

The expected contributions to reduce the deficit have been calculated using actuarial assumptions agreed with plan trustees based on an assessment performed on 31 March 20X3. This estimate reflects only the expected future contributions to meet the deficit that exists at the end of the current reporting period. Those expected future contributions will only be required to be paid to the extent that the deficit remains at the end of each reporting period. The plan trustees will perform the next funding assessment no later than 30 June 20X7.

Expected future cash flows relating to defined benefit plans—Example 3 of 3

Pattern of expected future contributions based on regulatory requirements

Facts

The Group operates a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 20X1 but continue to accrue future benefits for current employees. At 31 December 20X3, the net defined benefit liability was CU663 million demonstrating that the fair value of the plan assets is insufficient to meet the expected future benefit payments.

Example disclosure

The Group's policy is to contribute annually at least the amounts required by applicable laws and regulations. In 20X3, the Group contributed CU125 million, most of which were mandatory regulatory contributions to its defined benefit plans. Based on current assumptions, including the number of employees eligible for benefits, over the next three annual reporting periods, the Group expects no significant changes to the mandatory contributions rate for its plans. Therefore, the Groups expects to contribute about CU125 million into the defined benefit plans for the next three annual reporting periods. This estimate reflects the expected future contributions into the defined benefit plans to meet the future funding obligations for the totality of the plans.

2. Measurement uncertainties associated with defined benefit plans

Specific disclosure objective:

An entity shall disclose information that enables users of financial statements to understand the significant actuarial assumptions used in determining the defined benefit obligation.

The information is intended to help users:

Assess the sources of measurement uncertainties in the entity's determination of the defined benefit obligation.

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) the significant demographic and financial actuarial assumptions used to determine the defined benefit obligation.

(b) the entity's approach to determining the actuarial assumptions used, such as how the inflation rate was assessed, or the model used to determine longevity assumptions.

(c) the reasons why actuarial assumptions significantly changed during the reporting period.

(d) alternative actuarial assumptions reasonably possible at the end of the reporting period that could have significantly changed the defined benefit obligation.

(e) a description of how measurement uncertainty has affected measurement of the defined benefit obligation.

3. Future payments to members of defined benefit plans that are closed to new members

Specific disclosure objective:

An entity shall disclose information that enables users of financial statements to understand the period over which payments will continue to be made to members of defined benefit plans that are closed to new members.

The information is intended to help users:

Understand the length of time over which the defined benefit obligation associated with plans that are closed to new members will continue to affect the entity’s financial statements.

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) the weighted average duration of the defined benefit obligation.

(b) the number of years over which the benefits payable by the defined benefit plans are expected to be paid.

Proposed amendments to IFRS 13—discussion materials for break out group three

1. Assets and liabilities within each level of the fair value hierarchy

Specific disclosure objective:

For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand:

(a) the amount, nature and other characteristics of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition; and

(b) how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.

The information is intended to help users:

Assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position at the end of the reporting period.

Mandatory disclosure information

To meet this disclosure objective, an entity is required to disclose the fair value measurement for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) a description of the nature, risks and other characteristics of the classes of assets and liabilities in each level of the fair value hierarchy (or a cross-reference to where that information is disclosed elsewhere in the financial statements)..

(b) a description of inseparable third-party credit enhancement for a liability and whether such an enhancement is reflected in the fair value measurement.

Assets and liabilities within each level of the fair value hierarchy—Example (page 1 of 3)

(CU in millions)		Fair value measurements at the end of the reporting period using		
Description	**31/12/X9**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Trading securities:[(a)]				
Real estate industry	73	50	23	
Oil and gas industry	45	45		
Other	35			35
Total trading securities	153	95	23	35
Investment properties	58			58
Total investment properties	58			58
Debt securities:				
Residential mortgage-backed securities[(b)]	149		124	25
Commercial mortgage-backed securities[(c)]	150		127	23
Collateralised debt obligations	35			35
Sovereign debt securities	33	33		
Corporate bonds	45	9	36	
Total debt securities	412	42	287	83
Derivatives:[(d)]				
Interest rate contracts	17		17	
Foreign exchange contracts	43		43	
Credit contracts	38			38
Commodity futures contracts	21	21		
Commodity forward contracts	20		20	
Total derivatives	139	21	80	38

Assets and liabilities within each level of the fair value hierarchy—Example (page 2 of 3)

(CU in millions)		Fair value measurements at the end of the reporting period using		
Description	31/12/X9	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
RECURRING FAIR VALUE MEASUREMENTS (cont.)				
Liabilities				
Trading securities:[a]				
Real estate industry	(60)	(42)	(18)	
Oil and gas industry	(24)	(24)		
Total trading securities	(84)	(66)	(18)	
Contingent consideration payable[e]	(80)			(80)
Total contingent consideration payable	(80)			(80)
Derivatives:				
Interest rate contracts	(60)		(60)	
Foreign exchange contracts	(15)		(15)	
Index-linked swaps	(35)		(35)	
Commodity forward contracts	(29)		(29)	
Total derivatives	(139)		(139)	
NON-RECURRING FAIR VALUE MEASUREMENTS				
Assets held for sale[f]	26		26	
Total non-recurring fair value measurements	26		26	

Assets and liabilities within each level of the fair value hierarchy—Example (page 3 of 3)

Footnotes

(a) The entity has analysed the nature, risks, and other characteristics of the trading securities, and has determined that presenting the trading equity securities by industry provides users of financial statements with relevant information about the effect of the securities on the entity.

(b) The fair value of residential mortgage securities is based on quoted market prices, where available, purchase commitments and bid information from market participants. The prices are adjusted as necessary to include the embedded servicing value in the securities and to take into consideration the specific characteristics of such securities. These adjustments represent unobservable inputs to the valuation but are not considered significant given the relative insensitivity of the fair value of the loans to changes in these inputs.

(c) The fair value of commercial mortgage securities is based on the benchmark interest rate swap curve, whole loan sales and agency sales transactions. The significant unobservable input for these loans, excluding those to be sold to agencies, is management's assumptions about the spread applied to the benchmark rate. Based on the significance of the unobservable input, the entity classified this portfolio as Level 3. For commercial mortgage securities to be sold to agencies with servicing retained, the fair value is adjusted for the estimated servicing cash flows, which is an unobservable input. This adjustment is not considered significant given the relative insensitivity of the fair value of the loans to changes in this input.

(d) The majority of derivatives that the entity enters into are executed over the counter. Therefore, these derivatives are primarily classified as Level 2, as the readily observable market inputs to these models are corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market-related data.

(e) Contingent consideration payable of CU80 million relates to the acquisition in 20X7 of the ABC Enterprise business. This consideration is expected to be paid over the next five to seven years. It will vary based on the total revenue for the relevant products and movements in foreign currencies. Measurement of the contingent consideration payable requires the use of significant unobservable inputs. Therefore, it is categorised in Level 3. Further information is provided in Note X 'Contingent consideration liabilities'.

(f) In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, assets held for sale with a carrying amount of CU35 million were written down to their fair value of CU26 million, less costs to sell of CU6 million (or CU20 million), resulting in a loss of CU15 million, which was included in profit or loss for the period.

2. Measurement uncertainties associated with fair value measurements

Specific disclosure objective:

For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

The information is intended to help users:

Assess the sources of measurement uncertainties in the entity’s determination of the fair value measurements.

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) a description of the significant valuation techniques used in the fair value measurements.

(b) a description of a change in the valuation techniques and the reason(s) for making the change.

(c) quantitative or narrative information about the significant inputs used in the fair value measurements.

(d) a statement when the highest and best use of a non-financial asset differs from its current use, and an explanation of why.

3. Reasonably possible alternative fair value measurements

Specific disclosure objective:

For recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the alternative fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, using inputs that were reasonably possible at the end of the reporting period.

The information is intended to help users:

Evaluate the possible outcomes of the fair value measurements at the end of the reporting period, and evaluate how those possible outcomes might affect the future cash flows of the entity.

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) a description of the uncertainty caused by the significant inputs used in determining the fair value, if those inputs could have reasonably been different at the end of the reporting period and would have resulted in a significantly higher or lower fair value measurement.

(b) the range of alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period.

(c) an explanation of how the range of alternative fair value measurements in (b) was calculated.

(d) a description of interrelationships between the inputs used and how those interrelationships magnify or mitigate the effect of using inputs that were reasonably possible at the end of the reporting period on the fair value measurements.

4. Reasons for changes

Specific disclosure objective:

For recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the significant reasons for changes in the fair value measurements of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, from the beginning of the reporting period to the end of that period.

The information is intended to help users:

Evaluate how transactions and other events during the reporting period have affected the entity's financial position and performance, and therefore identify amounts to include in their analyses.

Mandatory disclosure information

To meet this disclosure objective for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, an entity is required to disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements. [List of possible reasons provided].

Non-mandatory disclosure information

While not mandatory, the following information may enable an entity to meet the disclosure objective:

(a) an explanation of the significant reasons for changes (see paragraph 116) in recurring fair value measurements other than those categorised in Level 3 of the fair value hierarchy.

(b) the reasons for transfers between levels of the fair value hierarchy during the reporting period.

(c) the entity's policy for determining when transfers between levels are deemed to have occurred. Examples of the policy for the timing of those transfers include the date of the event or change in circumstances that caused the transfer, the beginning of the reporting period and the end of the reporting period.

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