Agenda paper 2
ITCG meeting, June 2021

IFRS® Foundation

Disclosure Requirements in IFRS Standards—A Pilot Approach

Digital reporting implications

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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.

Objective of the session

The technical staff is seeking ITCG members' views on digital reporting implications of the Board's proposed new approach to developing disclosure requirements in IFRS Standards

In each breakout group, we would like members to discuss:

1. the likely effects of the proposed new approach on digital reporting (slides 22–30).
    a. do you agree with the Board's views on the likely effects of the proposed new approach on digital reporting?
    b. have we overlooked any benefits or disadvantages of the proposed new approach on digital reporting?
    c. do you have any comments on the potential costs of the proposed new approach for users of digital reporting?
2. the IFRS Taxonomy reference type for items of information included in IFRS Standards applying the proposed new approach (slides 31–35). Which approach do you support?

Focus of the session

Focus at this stage

- likely effects of the proposed new approach on digital reporting
- brainstorming reference type for items of information included in IFRS Standards when applying the proposed new approach

Not considered at this stage

- detailed modelling for the items of information
- detailed tagging of proposed amendments to IFRS 13 and IAS 19

Agenda

Slides

Project background and overview

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 overall disclosure problem

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

Stakeholders' feedback from the research project

Some say the easiest way to achieve compliance is to apply disclosure requirements like a **checklist**

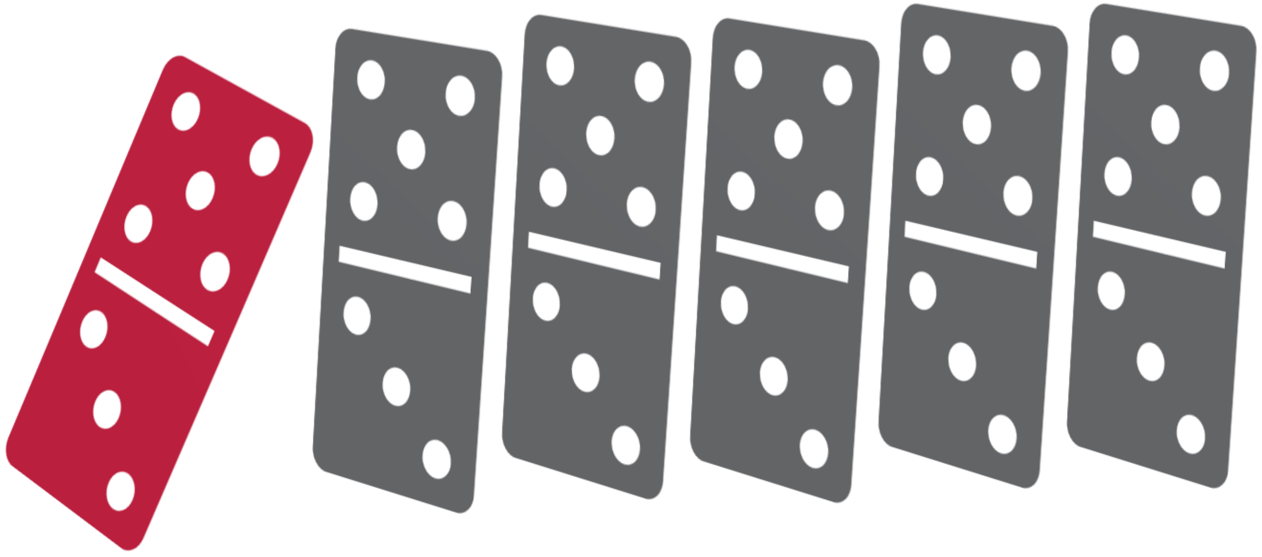
Standard-level activity would be the most effective thing the Board can do to help stakeholders play their part in addressing the problem

Companies may not always **understand why** information is useful

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

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 could 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	• would require companies to exercise judgement by satisfying disclosure objectives that describe investor information needs. • would provide items of information—that are typically not mandatory—to help companies judge how best to satisfy specific disclosure objectives.

Proposed Guidance for the Board

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 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

Working with the IFRS Taxonomy team

The project teams would work with the IFRS Taxonomy team to fully understand the digital reporting consequences of implementing stakeholder feedback. They would seek to understand:

- common application challenges or inconsistencies with current disclosure requirements
- interaction between disclosure proposals and common reporting practice
- if disclosure proposals are 'technology neutral'
- duplication or contradiction between requirements in IFRS Standards
- potential issues with disclosure proposals
- if disclosure proposals can be incorporated effectively into the IFRS Taxonomy

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?	Board’s main proposals
Complying with high volumes of prescriptive requirements does not leave time to apply materiality judgements	• 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**

Likely effects of the proposed new approach on digital reporting

Benefits and challenges

The proposals strike a balance between two key investor information needs*

Entity-specific and relevant	Focus requirement on disclosure objectives to disclose what is material to an entity
Comparable	Include items of information to enable comparability between entities for which similar information is material

The challenge …

If an entity provides entity-specific information not explicitly named in the Standards, it may tag that information using extensions, or not tag the information at all

The information may be more difficult for users of digital reporting to extract and analyse

* Including when information is consumed electronically

How the proposals address the challenge

Identify and extract all information relating the objectives

Overall disclosure objective (text block tag): IFRS Taxonomy element to tag all the disclosures provided on the topic

Specific disclosure objectives (text block tags): IFRS Taxonomy element to tag the disclosures provided for each objective

Identify and extract specific items of information disclosed to meet the objectives

Entity discloses items of information identified in the Standard	Entity discloses unique or unusual items of information
• An IFRS Taxonomy element with the relevant element type would be created for each item of information, including those not explicitly required • An entity would not need to create entity-specific elements (extensions)	• An entity would need to create its own extensions if the information disclosed is not captured by the examples in the Standards

Summary of the proposed package

See the appendix for an illustration

Content of the disclosure section in an IFRS Standard	Is this a requirement?	Will IFRS Taxonomy elements be created?*
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

* If an entity provides unique information to meet the objectives, it may need to use extensions (see slide 24)

Example: Representing the proposals in the IFRS Taxonomy

Text block element

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.

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. [..]

Text element

(b) quantitative information about expected future contributions to meet the defined benefit obligation recognised at the end of the reporting period. […]

Monetary element

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

Text element

(d) information about the expected pattern or rate of expected future contributions. […]

Text element

IFRS

Example: Tagging information disclosed to meet the disclosure objective (Company A)

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.

Monetary tag

Text block tag

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.

Example: Tagging information disclosed to meet the disclosure objective (Company B)

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

Text block tag

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:

Monetary tag

						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.

Example: Tagging information disclosed to meet the disclosure objective (Company C)

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

Text block tag

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.

Monetary tag

The proposals' likely effect on digital reporting

Board's view

The proposed new approach could increase the need for entities that report electronically to create their own extensions. However, the proposals would capture items of information that are relevant to multiple entities so that relevant IFRS Taxonomy elements would be created.

What are ITCG members views?

- Do you agree with the Board's views on the likely effects of the proposed new approach on digital reporting?
- Have we overlooked any benefits or disadvantages of the proposed new approach on digital reporting?
- Do you have any comments on the potential costs of the proposed new approach for users of digital reporting?

IFRS Taxonomy reference type for items of information

Background

Applying the proposed new approach:

- overall and specific disclosure objectives would be explicitly required in IFRS Standards.
- there will be two types of items of information in IFRS Standards:
  - Type 1—required items of information. An entity would be explicitly required to comply with these items in order to meet the specific disclosure objective. The Board would only include these items when it has concluded that they are *essential* to meet the objective.
  - Type 2—items of information that are not mandatory but may enable an entity to meet the specific disclosure objective. These would identify potentially material information that an entity may disclose if relevant to its circumstances.

IFRS Taxonomy reference types

Disclosure

for a disclosure requirement in IFRS Standards

Example

for an example provided in an IFRS Standard or its accompanying materials

Common practice

for common reporting practice within IFRS financial statements

✓ We think the 'Disclosure' reference type is appropriate for all **disclosure objectives and Type 1 items of information**

✗ However, it may not be appropriate to identify Type 2 items of information with the 'Disclosure' reference because they are not explicit requirements

Type 2 items of information

Approach A—Use the ‘Example’ reference type for the Type 2 items of information

Advantages	Disadvantage
• The reference type already exists in the IFRS Taxonomy. It is currently used to identify the limited number of encouraged but not required disclosures in IFRS Standards. • The reference type is consistent with designating these items of information as examples of what entities may disclose to meet the objective	• The reference type would not clearly identify that these items of information are related to disclosures. Users of the IFRS Taxonomy are therefore likely to conclude that IFRS Standards do not include enough disclosure items.

Type 2 items of information

Approach B—Create a new disclosure reference type in the IFRS Taxonomy for disclosure items that are not mandatory

Advantages	Disadvantages
• Clear identification of the items of information as disclosures but not requirements • XBRL International already specifies a non-mandatory disclosure reference type that can be used (ie recommendedDisclosureRef) • Prevents proliferation of the 'Example' reference type in the IFRS Taxonomy. Type 2 items of information would be used in most cases in IFRS Standards.	• The approach would require us to identify all existing line items that are not explicitly stated as disclosure requirements and determine whether to switch them to this reference type—could be difficult to ensure completeness. For example, IFRS Standards include encouraged but not required disclosures, which are currently identified with the 'Example' reference type. • May require a change to IFRS Taxonomy architecture and management system but this would not be a significant technology change

Stakeholder input on the Exposure Draft

What stakeholder input is the Board looking for?

Proposed Guidance for the Board

+

Proposed amendments to IFRS 13 and IAS 19

Would the proposals enable companies to…		
avoid applying disclosure requirements like a checklist?	make effective materiality judgements?	eliminate immaterial disclosures?
identify when additional or different information needs to be disclosed?	better understand investor needs and identify information that would meet those needs?	determine how best to satisfy disclosure objectives in their own circumstance?

Would the proposals…		
lead to better information for investors?	give auditors and regulators a basis for challenging judgement instead of relying on a checklist?	lead to benefits that exceed costs?

How to get involved

March 2021

Publication of the Exposure Draft

March 2021 – October 2021
(Comments due 21 October 2021)

Comment period and outreach

Q1 2022

Exposure Draft Feedback

How you can get involved

- Participate in the outreach
- Sign up to participate in fieldwork to test the proposals
- Submit a comment letter

Appendix: Illustration of the proposed new approach

Illustration of the proposed new approach

Appendix—Illustration of the proposed approach to developing disclosure requirements (using one of the proposals for IFRS 13)

Overall disclosure objective

An entity **shall** disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

Requirement	To assess whether information provided in the notes meets overall user information needs (eg should additional information be disclosed?)

Specific disclosure objective(s)

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.

Requirement	To disclose all material information needed to meet detailed user information needs on specific topics

Explanation supporting the specific disclosure objective

The information required by [the specific disclosure objective] **is intended to** help users of financial statements 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.

Explanatory information	To help entities better understand the specific disclosure objective and facilitate their judgement as to whether information is material to disclose

Illustration of the proposed new approach (cont.)

Items of information

In meeting [the specific disclosure objective] for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, an entity **shall** disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements.

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

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

…

Requirement	To disclose material information that is essential in order to meet the specific disclosure objective
Non-mandatory items	To identify potentially material information that an entity may disclose to meet the specific disclosure objective, if relevant to the entity's circumstances

The illustration includes a required item of information for completeness; however, such an item of information would be provided in the Standards only in some cases.

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