

IFRS® Foundation

Targeted Standards-level Review of Disclosures

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 5
July 2022

Purpose of this session and questions for ASAF members

Agenda ref 5

Purpose of this session

- To seek advice from ASAF members on the next steps for the Targeted Standards-level Review of Disclosures.

Questions for ASAF members

1. Have we correctly analysed the arguments for and against each possible course of action, and the potential next steps?
2. Do you think a middle ground approach as illustrated on pages [14–15](#) would provide a better framework for enabling entities to make effective judgements?
3. If the IASB were to terminate the project, is there anything the IASB should do to help address the disclosure problem?
4. Should the IASB further develop the proposed amendments to the disclosure requirements of IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*?

Structure of the paper

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Summary of the IASB's proposals

Summary of feedback—main messages

Way forward—possible courses of action

Amending IFRS 13 and IAS 19

Summary of the IASB's proposals

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The 'disclosure problem'

not enough
relevant
information

too much
irrelevant
information

ineffective
communication
of the
information

Objective of the project

Help address the **disclosure problem** by:

- improving the IASB's approach to developing and drafting disclosure requirements; and
- enabling preparers to improve the usefulness of disclosures in the notes.

Main proposals in Exposure Draft (March 2021)¹

- New approach for the IASB to use when developing and drafting disclosure requirements in IFRS Accounting Standards (proposed Guidance):
 - require entities to satisfy overall and specific disclosure objectives; and
 - provide a list of items of information—typically not mandatory—to help entities decide how best to satisfy specific disclosure objectives.
- Replace disclosure requirements in IFRS 13 and IAS 19 with a new set of disclosure requirements developed applying the proposed Guidance.

¹ The Exposure Draft and the Basis for Conclusions are available on the IFRS Foundation [website](#).



Summary of feedback— main messages

Summary of feedback—main messages

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General support for

Engaging early with users of financial statements and other stakeholders when developing disclosure requirements

Developing disclosure objectives explaining user information needs

Integrating development of disclosure requirements with the rest of the accounting model

Considering implications for digital reporting



On the disclosure problem

The proposed approach may not solve the disclosure problem

Entities are likely to continue to apply a checklist approach to disclosing items of information specified in an Accounting Standard

Ineffective materiality judgements are a root cause of the disclosure problem

A change of behaviours across the financial reporting ecosystem needed to fully address the disclosure problem

Summary of feedback—main messages

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On the disclosure objectives

Disclosure objectives that describe user information needs would help entities provide relevant information

Overall disclosure objectives are too broad to be effective as requirements

Specific disclosure objectives and explanations of what the information will help users do, should be drafted with more precision



On the items of information

Focusing compliance on disclosure objectives rather than specified items of information would:

- make the requirements costly to apply and difficult to operationalise and enforce;
- decrease the comparability of information;
- undermine the benefits of digital reporting; and
- potentially create conflicts with the prescriptive requirements of local laws and regulations.

The IASB discussed the feedback in:

February 2022

Preparer fieldwork findings, and feedback provided in comment letters from, and outreach activities with, users of financial statements

May 2022

Feedback provided in remaining comment letters

A grayscale world map is the background. Overlaid on the map are several thick, light gray curved lines that sweep across the globe from the bottom left towards the top right. Additionally, there are several dotted lines that form a grid-like pattern across the map, intersecting the curved lines.

Way forward—possible courses of action

1 Finalise the proposals with limited changes

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Arguments for

- A few respondents agreed that the proposed approach would help solve the disclosure problem.
- The feedback did not reveal any new information about the disclosure problem or the potential ways to solve the problem.
- No clear suggestions on remedying the concerns about the 'non-mandatory items of information' approach.
- An approach that involves requiring disclosure of specified items of information may not solve the disclosure problem.
- Respondents generally agreed the disclosure objectives that describe user information needs would help entities provide relevant information.

- Feedback indicates that most stakeholders do not support the proposals as they are currently drafted.
- The proposals as drafted may not have the intended effect of solving the disclosure problem because entities may continue to use a checklist approach to disclosing items of information specified in an Accounting Standard.
- Focusing compliance on objectives will significantly increase use of judgement, thus increasing both incremental and ongoing costs.
- The information disclosed applying the objectives may not be comparable across entities.

Arguments against

1 Finalise the proposals with limited changes

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Potential next steps

- Finalise the Guidance for the Board with limited changes.
- Implement the Guidance in future standard-setting work.
- Finalise the amendments to IAS 19 and IFRS 13 with changes in response to detailed feedback on the proposed amendments.

However, finalising the proposals with limited changes would not address the significant concerns raised about the proposed approach

2 Terminate the project

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Arguments for

- Respondents raised significant concerns that would need significant time to analyse and resolve.
- Feedback suggests the disclosure problem may be largely behavioural. Unless preparers, auditors and regulators also take action the proposed approach may not solve the disclosure problem.
- It may be difficult to develop alternative approaches that address stakeholders' concerns and help address the disclosure problem.
- Would free up resources for other projects.

- Feedback suggests that disclosure objectives that precisely describe user information needs would help entities provide relevant information.
- Feedback also suggests that respondents would support a 'middle ground approach' that uses objectives and mandatory items of information.
- Although the IASB may not be able to solve the disclosure problem on its own, a revised approach to drafting disclosure requirements could help address the disclosure problem.

Arguments against

2 Terminate the project

Agenda ref 5

Potential next steps

- Apply a few good practices, such as early engagement with stakeholders and use of specific disclosure objectives, in future standard-setting work.
- Consider whether there are any other ways in which the IASB could encourage better use of judgement when making disclosures (for example, narrow scope amendments or improvements to the materiality practice statement).
- Terminate the project and issue a project summary.
- Decide whether to further develop the proposed amendments to IAS 19 and IFRS 13 in light of the feedback received (see pages [19–21](#)).

3 Develop a middle ground

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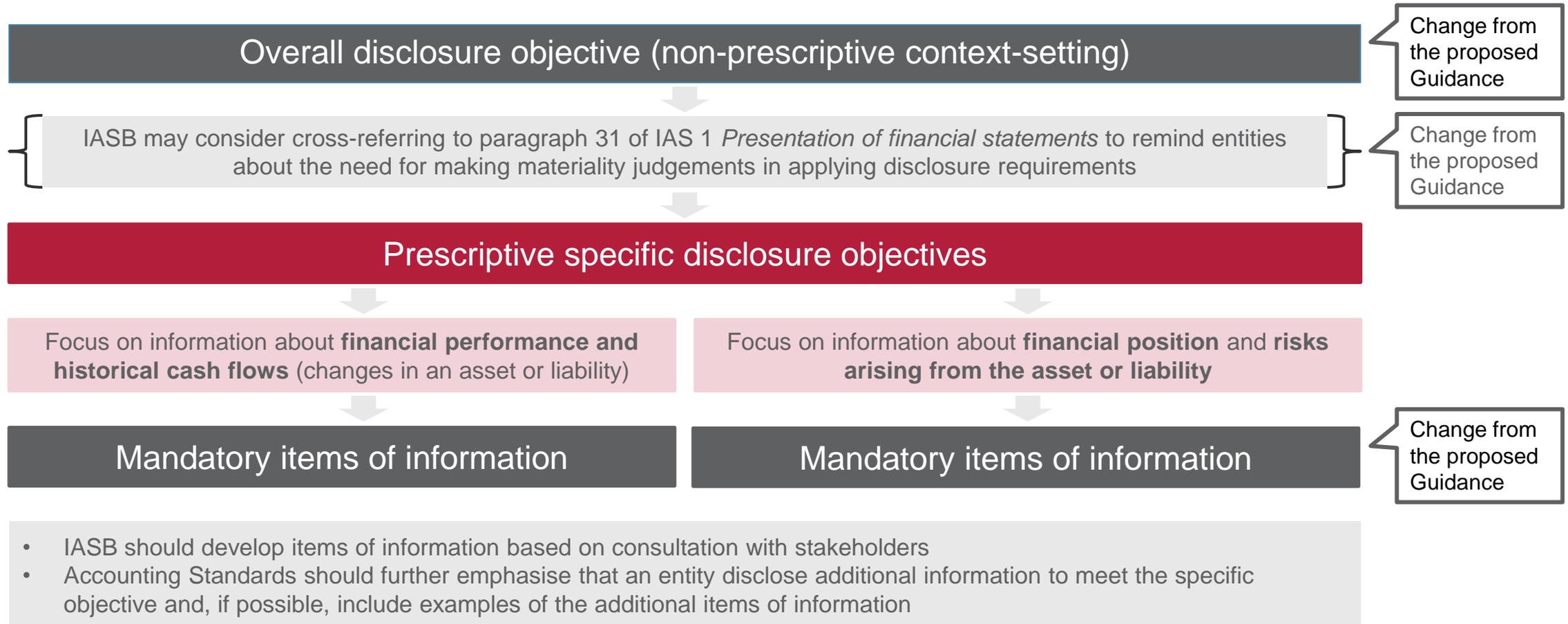
- Many respondents suggested a middle ground approach in which a disclosure objective will always be accompanied by a list of mandatory items of information that an entity should disclose, if material, to meet the objective.
- A few respondents said that the list of mandatory items of information should cover simple circumstances, with an entity expected to apply judgement to determine what to disclose in more complex circumstances.
- A few respondents said that the list of mandatory items of information could be supplemented by a secondary list of non-mandatory items of information that an entity may disclose in particular circumstances.
- In relation to the disclosure objectives:
 - some respondents objected to making an overall objective a mandatory requirement for an entity to apply; and
 - many respondents agreed that specific disclosure objectives, and the explanation of what the information is intended to help users do, have the potential to help entities provide relevant information.

To respond to the feedback, the IASB could develop a middle ground—for example the approach described on [page 14](#)

Develop a middle ground

3 —a possible approach

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Develop a middle ground

3 —a possible approach

Applying the approach on page 14 to IFRS 13

Overall disclosure objective

The overall objective of the disclosures is for an entity to disclose information that, together with the information provided in the primary financial statements, enables users of financial statements to evaluate the entity's exposure to uncertainties associated with significant unobservable inputs (Level 3) used in fair value measurement of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

Specific disclosure objective(s)

For recurring fair value measurements categorised in Level 3 of the fair value hierarchy, 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.

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, financial performance and cash flows, and therefore identify amounts to include in their analyses.

Items of information

In meeting [the specific disclosure objective], an entity **will normally** disclose a tabular reconciliation from opening balances to closing balances of the reasons for significant changes in the fair value measurements.

...

Context-setting	To provides a context for the information that an entity is expected to disclose applying the specific disclosure objectives
Requirement	To disclose material information needed to meet detailed user information needs on specific topics
Explanatory information	To help entities better understand the specific disclosure objective and facilitate their judgement as to whether information is material
Requirement	To identify items of information that an entity should disclose at a minimum, if material, to meet the specific disclosure objective

3 Develop a middle ground

Arguments for

- Instead of focusing on solving the disclosure problem, the IASB could focus on providing a better disclosure framework to enable entities to make effective judgements.
- Feedback suggests that disclosure objectives that precisely describe user information needs would help entities provide relevant information.
- Clear specific disclosure objectives together with a list of items of information would help entities and auditors have useful conversations on information that should be disclosed.
- Including a mandatory list of items of information that help meet specific objectives would help reduce the cost of complying with specific disclosure objectives.

- A middle ground approach may not solve the disclosure problem unless there is a behavioural change across the entire financial reporting ecosystem.
- If the IASB were to decide to include both mandatory and non-mandatory items of information, it may be difficult to develop a consistent basis for identifying the list of mandatory items of information.

Arguments against

3 Develop a middle ground

Agenda ref 5

Potential next steps

- Change the proposed Guidance for the IASB to reflect the middle ground approach.
- Identify a basis for drawing a line, if required, between:
 - items of information that are required to meet a specific disclosure objective; and
 - additional items of information that may contribute to meeting an objective.
- Apply the updated Guidance in any future standard-setting work.
- Decide whether to apply the middle ground to IFRS 13 and IAS 19 (see pages [19–21](#)).
- Consider whether there are any other ways in which the IASB could encourage better use of judgement when making disclosures (for example, narrow scope amendments or improvements to the materiality practice statement).

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid pattern across the map, representing latitude and longitude.

Amending IFRS 13 and IAS 19

Amending IFRS 13 and IAS 19

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Purpose of the proposed amendments

- To test the proposed approach to *drafting* disclosure requirements; and
- To use the proposed approach to *developing* disclosure requirements to improve the disclosure requirements in IFRS 13 and IAS 19.

Whether the IASB decides to develop a middle ground approach or terminate the project, it should decide whether to further develop the proposed amendments to IFRS 13 and IAS 19.

If the IASB decides to develop a middle ground approach, the IASB could decide...

- Not to amend IFRS 13 or IAS 19 because the costs of further developing the proposals and implementing the amendments may outweigh the benefits; or
- To amend IFRS 13 or IAS 19 using the middle ground approach.

If the IASB decides to terminate the project, the IASB could decide...

- Not to amend IFRS 13 or IAS 19; or
- To redeliberate the proposals in light of the feedback received and decide to amend the disclosure requirements of IFRS 13 or IAS 19.

Arguments for

- Responds to the findings of the Post-implementation Review of IFRS 13 which identified a need for more information on Level 2 measurements.
- Feedback suggests that the specific disclosure objectives would help an entity focus on entity-specific information and reduce boilerplate information.
- Feedback suggests that the proposals may not be costly to implement because most of the information required to comply with the proposals is readily available.

- It may be difficult to define Level 2 measurements that are close to Level 3.
- Respondents expressed concerns about the cost of collecting information, especially for Level 2 measurements close to Level 3, and questioned whether the potential benefits exceed the cost.
- The proposals may lead to a divergence from US GAAP.

Arguments against



Arguments for

- Feedback indicates some support for the objective-based disclosure requirements in IAS 19.
- Feedback also suggests that the proposals may not be costly to implement because most of the information required to comply with the proposals is readily available.

- Feedback from respondents other than users indicates that the proposals would add complexity and may not result in more relevant information compared to the current requirements in IAS 19.



Arguments against

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