

STAFF PAPER

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Project	Disclosure Initiative: Targeted Standards-level Review of Disclosures		
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Purpose and structure of this paper

1. The purpose of this paper is to inform the IASB about feedback received from users of financial statements (users) on the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* (Exposure Draft) and ask the IASB whether it has any questions or comments.
2. This paper is structured as follows:
 - (a) Summary of user outreach activities (paragraphs 3–6);
 - (b) Summary of feedback received (paragraphs 7–11);
 - (c) Support for the proposed approach (paragraphs 12–15);
 - (d) Disagreement with the proposed approach (paragraphs 16–21);
 - (e) Alternative suggestions (paragraphs 22–31);
 - (f) Feedback on the proposals for IFRS 13 and IAS 19 (paragraphs 32–46); and
 - (g) Other feedback (paragraphs 47–48).

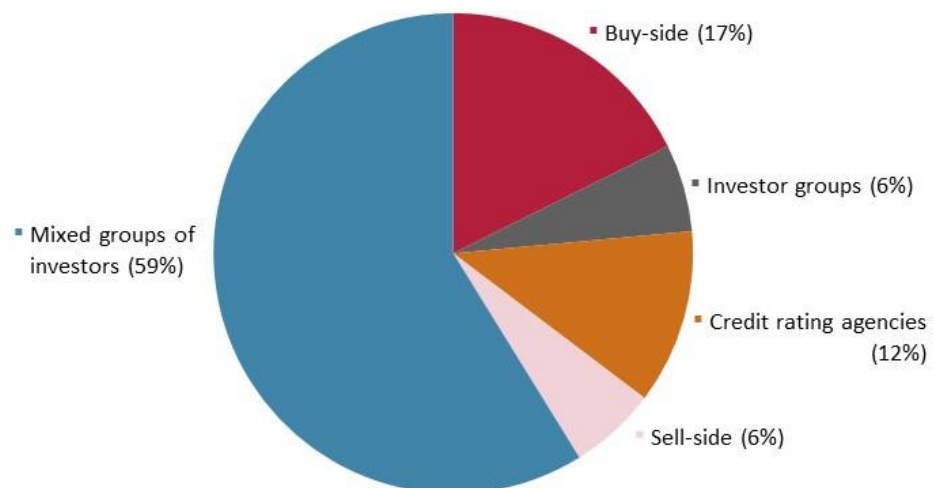
Summary of user outreach activities

3. During the comment period for the Exposure Draft, the staff attended 17 meetings with 80 users. These included the following group outreach meetings, some of which were conducted in public:

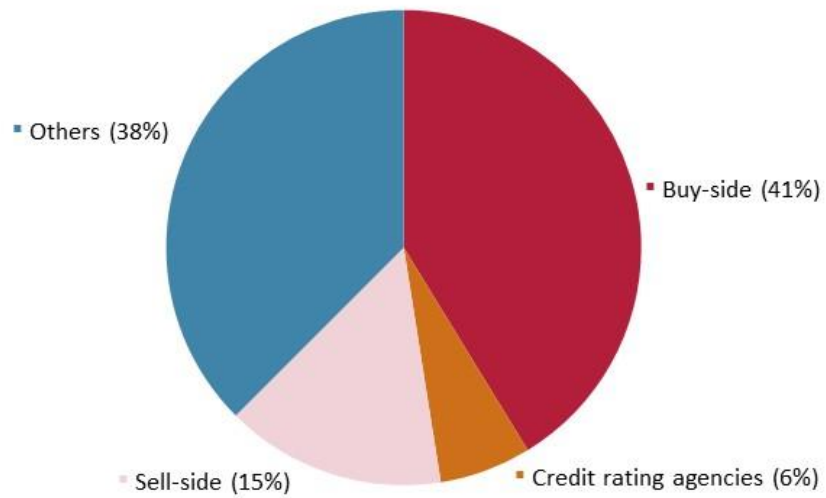
- (a) joint meeting of the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum in June 2021.
- (b) meeting with Corporate Reporting Users’ Forum (CRUF) UK in September 2021.
- (c) investor outreach events arranged with national standard-setters in Australia, Canada, Europe and Japan. In some cases, these included discussions about preparer fieldwork results (see Agenda Papers 11A–11D) and/or discussions involving both preparer fieldwork participants and users.

4. We met with both buy-side and sell-side analysts, as well as credit rating agencies. We spoke to some users individually and others in group meetings attended by various investor types. The graphs below summarise the types of investors we spoke to:

(a) by meeting:

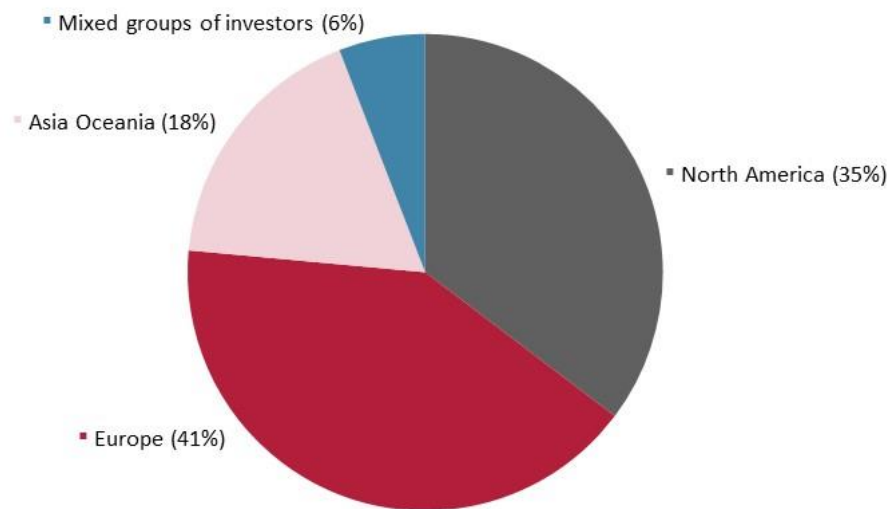


(b) by individual¹:



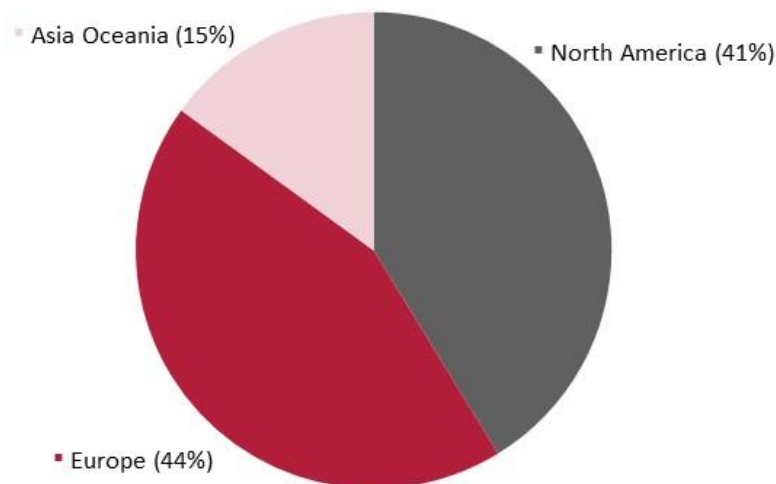
5. The graphs below summarise the geographical location of all investors we spoke to:

(a) by meeting:



¹ 'Others' include investment advisors, investor groups, a forensic accountant and an appraiser.

(b) by individual:



6. At the date of posting this paper, we have also received four comment letters from one global credit rating agency, one global professional body, one UK-based investor group and one global investor group. We have included feedback from those letters in this paper.

Summary of feedback received

7. Most users supported the Board’s proposals to work closely with users to develop disclosure objectives. They agreed there is a need for information that is more useful, and that this could be achieved by linking disclosure requirements directly to user needs.
8. Some users, including many of the buy-side investors that we spoke to, supported the proposed approach of requiring companies to comply with disclosure objectives rather than prescriptive requirements to disclose particular items of information. They hoped the approach would result in companies disclosing information that is more relevant and removing unnecessary information (paragraphs 12–15).
9. However, many other users raised concerns about removing or reducing prescriptive requirements to disclose particular items of information. They were concerned about losing information that they get today, and about the effects of the proposed approach on comparability and digital reporting. Some of these users explained that they do not

consider immaterial information to be a problem and they are able to extract the information they need, even from very lengthy financial statements (paragraphs 16–21).

10. Some of the users that had concerns, suggested the IASB should use a combination of both disclosure objectives and minimum prescriptive disclosure requirements. They said this should help entities disclose more useful information, while still ensuring comparability. A few said they prefer prescriptive disclosure requirements to disclosure objectives, particularly for items of information that are highly technical (such as on pensions) and quantitative in nature (paragraphs 22–26).
11. Some users of all types commented on the difference in disclosure quality between entities, expressing concerns about the different ways entities might approach application of the proposals. For example, one said that the ‘top 25%’ of entities—those who ‘choose wisely and make decent judgements’—would likely improve their disclosures applying the proposals. However, they were concerned about the ‘bottom 25%’. Users said these entities might be unable to apply effective judgement or might misuse the freedom offered by the proposed approach.

Support for the proposed approach

12. Some investors support the proposed approach. They expect the project to result in unnecessary information being removed from—and more entity-specific information being provided in—the financial statements. A few investors said they want entities to remove boilerplate information and focus on entity-specific detail, even if comparability is affected as a result. For example, one observed that comparability is only really achieved if any ‘entity-specific reasoning’ behind disclosures is also understood. Another used the example of employee benefits—saying that different companies have different means to offer benefits and that the ‘spectrum of information, including about social responsibilities as well as environmental, social and governance matters’ that employee benefit disclosures offer to investors needs to be entity-specific.

13. A few users explained the challenges they face today as a result of immaterial information being disclosed. One described being ‘overwhelmed by information that hinders us from seeing the essentials’ as a result of entities applying prescriptive disclosure requirements like a checklist. One said that stakeholders who regularly engage with the IASB on proposals are typically those for whom the topic in question is material (for example, entities with large pension obligations—or their investors—engage in employee benefit consultations and retailers/retail analysts engage in leases consultations). Consequently, this results in a long list of disclosure requirements that are suitable for the most affected entities but are irrelevant for many other entities. Another said disclosures should be understandable to users who are generalists, rather than sector specialists.
14. Another user said that, under a rules-based framework, entities can decide to omit information that is not explicitly required, even if that information is relevant. However, requiring compliance with disclosure objectives should result in companies disclosing relevant information in areas that are lacking today. The investor described having to contact entities to obtain material information about, for example, multi-employer defined benefit plans that was not disclosed in the financial statements. An objectives-based approach, the investor said, would have forced those entities to disclose such information.
15. Furthermore, one investor suggested that if the IASB is confident that the proposed disclosure objectives capture user needs, it should consider excluding non-mandatory items of information from the proposals. They said this would eliminate the risk of entities applying the items of information like a checklist and force them to apply judgement about which information is material.

Disagreement with the proposed approach

16. Users who disagree with the proposed approach include:
 - (a) credit analysts, who rely on standardised data to run their models. They said their systems are sufficiently sophisticated to quickly extract the data they need and discard any irrelevant information, even from very lengthy financial

statements. As such, they do not view excessive or immaterial information as a problem. One explained that when an item needed for their models is omitted from the financial statements, they ask the entity why that is the case.

Consequently, they prefer entities to report immaterial or null amounts, rather than omit disclosures, because this can facilitate their analysis and assures them that items are immaterial.

- (b) subject matter experts², who rely on detailed technical disclosures (for example, on pensions) to prepare analysis that is then used by a broad range of less specialist investors. They said that while many investors may not use all of the detailed disclosures in financial statements, they rely on the analysis that subject matter experts produce. Any reduction in those disclosures would limit the ability of those experts to do their jobs and, consequently, would prevent many other users from getting the information they need.

17. The primary concerns raised by users who disagree with the proposed approach are:

- (a) Comparability and digital reporting (paragraph 18);
- (b) Audit and enforcement (paragraphs 19–20); and
- (c) Application of effective materiality judgement (paragraph 21).

Comparability and digital reporting

18. Some investors were concerned that more use of judgement may reduce comparability across entities. Additionally, they were concerned that entity-specific, rather than standardised, information would result in entities using custom electronic tags rather than standard tags. This would make it more difficult for them to analyse high volumes of companies because electronic data extraction methods require standardised disclosures and standardised electronic tags.

² Subject matter experts may be employed, for example, within buy-side firms to support portfolio managers and sector analysts, or at sell-side firms and credit rating agencies to support sector analyst colleagues and buy-side clients.

Audit and enforcement

19. Some users were concerned that the proposed approach would result in disclosures that are difficult to audit and enforce. For example, one user group said the disclosure objectives are too high-level, and that the inclusion of items of information ‘makes disclosures far too voluntary and subjective’; hence, impairing the ability of auditors and regulators to challenge management. Another investor said the proposed requirements would be particularly difficult to enforce for the ‘bottom 25%’ (see paragraph 11).
20. However, a few other users disagreed with this view and thought auditors and regulators should be able to assess compliance with disclosure requirements developed using the proposed approach. They said:
 - (a) the proposed specific disclosure objectives should provide a basis for auditors and regulators to determine whether an entity has applied judgement effectively; and
 - (b) when entities disclose ‘obfuscating or immaterial, irrelevant information, auditors and regulators will have to determine that IFRS Accounting Standards are not being met’.

Application of effective materiality judgement

21. As described in paragraph 11, users were concerned that some entities would be unable to exercise materiality judgement appropriately. A few investors explained some reasons why this might be the case, including:
 - (a) entities being concerned about the risk of litigation for not disclosing items of information. To mitigate such a risk, entities might disclose items of information ‘just in case’, even if those items are immaterial.
 - (b) it may be more difficult for entities in jurisdictions with less sophisticated capital markets to exercise materiality judgement appropriately. One user thought that discussions between management and users help entities to exercise good judgement and that such discussions might be more common in jurisdictions with more sophisticated capital markets.

- (c) a minority of entities may abuse the proposed approach. For example, one credit rating agency said some entities might perceive the approach as an opportunity to selectively disclose positive aspects of their financial performance and position, while hiding more negative aspects.

Alternative suggestions

Retaining prescriptive disclosure requirements

- 22. Some investors would prefer the IASB to continue developing prescriptive requirements to disclose particular items of information. One credit rating agency observed that many entities are able to provide high-quality disclosures while diligently complying with prescriptive disclosure requirements. A few investors said prescriptive disclosure requirements serve as a ‘crucial failsafe’ for users of financial statements by ensuring that entities disclose relevant information.
- 23. Nonetheless, these investors support the use of prescriptive disclosure requirements to varying degrees. For example:
 - (a) some thought the IASB should develop specific disclosure objectives, as described in the proposals, but supplement each objective with a list of minimum required items of information (see paragraphs 27–29);
 - (b) a few suggested standardising quantitative items of information, while giving entities flexibility when disclosing qualitative items of information; and
 - (c) a few would prefer the IASB to continue relying entirely on prescriptive disclosure requirements.
- 24. As noted in in paragraph 16(b), one subject matter expert on pensions said that any loss of information would limit their ability to perform their analysis. Given the inherent complexity and exposure to risk around defined benefit plans, the expert suggested items of information in that area be prescribed.
- 25. One credit rating agency and one investment advisory professional highlighted that the IASB had to rely on prescriptive requirements in its recent proposals to address

the lack of disclosures around supplier finance arrangements. The credit rating agency said:

If the IASB believes it will be possible to rely on disclosure objectives or other principles within IFRS, the good faith of company management, and robust scrutiny by auditors to deliver comprehensive disclosures for IFRS 13, IAS 19, and IFRS more generally, we would like to better understand the rationale underpinning this conviction—especially when such an approach has not worked at all well for supplier finance.

26. Finally, one user said that the IASB should monitor industry practice and when entities disclose useful voluntary information, IFRS Accounting Standards should be updated to require that information.

‘Middle-ground’ approach

27. Some users, who agreed with the potential benefits of an objectives-based approach but were concerned about the potential risks, suggested a ‘middle-ground’ approach. They suggested the IASB develop disclosure objectives while also keeping prescriptive requirements to disclose a minimum level of standardised information (minimum disclosure requirements).
28. One of these users thought that minimum disclosure requirements alone would be applied like a checklist by entities. They said this problem could be mitigated by requiring entities to comply with disclosure objectives and that minimum disclosure requirements would complement, rather than contradict, those objectives.
29. To further reduce the risk that entities apply minimum disclosure requirements like a checklist, while ensuring some degree of comparability is achieved, one investor said it is important that minimum disclosure requirements ‘be kept to a minimum, otherwise we will see senseless numbers’. Conversely, another user suggested keeping the current disclosure requirements in IFRS Accounting Standards while adding disclosure objectives.

Monitoring practice

30. A few users, who agreed with the potential benefits of an objectives-based approach but were concerned about the potential risks, thought the IASB could consider monitoring practice and—if appropriate—place increasing reliance on disclosure objectives over time. For example:
- (a) one investor said disclosure objectives would cause industry practices to evolve and that this would take time. They said the IASB should develop minimum disclosure requirements alongside disclosure objectives, and if the proposed approach is proven to improve the quality of disclosures (for example, because entities disclose new entity-specific information), the IASB might reduce the number of minimum disclosure requirements in future.
 - (b) one investor suggested making the proposed approach available as an option for entities for a limited amount of time—for example, allowing entities to choose whether to apply the current disclosure requirements or the proposed requirements in the Exposure Draft. The option of applying the proposed approach should then automatically expire (similar to the expiration of the optional practical expedient for covid-19 related rent concessions), unless the IASB decides to permanently mandate its use. The user said the behavioural impact of the proposed approach cannot be truly tested unless it is applied in published financial statements and that their suggestion would allow the IASB to fully understand the practical outcomes.
31. Similarly, comment letters from a UK based investor group and a global investor group supported the proposed approach but said that (**emphasis added**):
- We agree with this approach for the reasons already given above. We have no alternative approaches to suggest. We agree that this approach should discourage the checklist approach and help address the disclosure problem **but would like to see it in practice before deciding whether or not it is effective on both these counts.**

Feedback on the proposals for IFRS 13 and IAS 19

32. We also asked investors whether the proposed disclosure objectives for both IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* have clearly and accurately represented their information needs.

Feedback on the IFRS 13 proposals

33. Most users who commented on the IFRS 13 proposals generally agreed that the disclosure objectives have accurately captured their information needs. In particular, they agreed that disclosures need to focus more on items in Level 2 of the fair value hierarchy that are subject to uncertainty and share similar characteristics with those in Level 3.

Sensitivity analysis

34. Some users commented on the proposed specific disclosure objective requiring an entity to disclose information that enables users of financial statements to understand alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period. As described in Agenda Paper 11C, IFRS 13 currently requires disclosure of the effects of reasonably possible changes in unobservable inputs on Level 3 fair value measurements (sensitivity analysis). Such a sensitivity analysis is not named in the non-mandatory items of information included in the proposals. This was in response to feedback from users that detailed line-by-line sensitivity analyses can be overly complex and do not always meet users' underlying need to understand how the fair value amounts included in the statement of financial position could vary. This is because assumptions rarely move in isolation and, consequently, sensitivity analyses based on individual assumptions rarely reflect any realistic scenario. The proposals in the Exposure Draft were intended to explain the underlying user need and allow entities to satisfy it in a simpler way than is typically done today. For example, one of the items of information that may enable an entity to meet the disclosure objective is the range of alternative fair value measurements using reasonably possible inputs (paragraph 113(b) of the Exposure Draft).
35. Users had mixed views regarding this proposal. A few said sensitivity analysis is a critical piece of information and should be required, whereas a few others said its use

can be limited. One gave the example of life insurers, saying that assets and liabilities are managed as a portfolio and that users are interested in the net exposure to uncertainty and not on the sensitivity of either assets or liabilities in isolation. One user said that a range of reasonably possible alternative fair value measurements is important and helpful information.

36. Users also had mixed views as to whether the format of sensitivity analysis should be made uniform—for example, whether all entities should be required to disclose sensitivity to the same quantitative movement in basis points. Some said this would help achieve comparability between entities, while others said such an analysis would not reflect realistic scenarios.

Proposed items of information

37. Some users suggested additional items of information should be included in the proposals, such as:
- (a) tabular summaries of fair value measurement assumptions and how they were used to arrive at the amounts included in the statement of financial position;³
 - (b) breakdown of disclosed sensitivities into those that would affect profit or loss and those that would affect equity; and
 - (c) disaggregation of fair value measurement information by sector and jurisdiction.
38. Some users agreed that a reconciliation from opening to closing fair value measurements is useful information and that—as proposed in the Exposure Draft—this should continue to be a mandatory requirement for Level 3 fair value measurements. A few also thought the IASB should mandate a reconciliation for Level 2 fair value measurements.

³ Paragraph 110(a) of the proposals identifies ‘quantitative or narrative information about the significant inputs used in the fair value measurements’ as an item of information that may enable an entity to meet the related disclosure objective.

Feedback on the IAS 19 proposals

39. Most users who commented on the IAS 19 proposals generally agreed that the disclosure objectives have captured their information needs. In particular, these investors appreciated the increased focus on the cash flow effects of defined benefit plans.

Cash flow effects of defined benefit plans

40. Users agreed with the feedback the IASB received when developing the proposals that this is important information for users and that they do not get sufficient information on this today. A few identified the following items of information as particularly useful:
- (a) minimum required cash contributions;
 - (b) split between normal (i.e., through payroll) and abnormal cash contributions; and
 - (c) explanation of any deficit repair plan in place.
41. However, a few users cautioned against overemphasising the importance of cash. One user noted that changes to a pension plan—for example, cash payments made into the plan—are value-neutral to an entity’s equity and do not change the enterprise value. Others agreed that an overemphasis on cash might be misleading. They said some entities might choose to pay less money into the pension plan and instead use cash elsewhere in the business. This would lead to a larger defined benefit obligation but may nonetheless be a sensible decision for the business (see related comments from entities in paragraph 38–39 of Agenda Paper 11D).

Sensitivity analysis

42. Some users commented on the proposed specific disclosure objective requiring an entity to disclose information that enables users of financial statements to understand the significant actuarial assumptions used in determining the defined benefit obligation. Similar to the proposals for IFRS 13 (see paragraph 34), the IAS 19 proposals—unlike the current requirements—do not require an entity to disclose a sensitivity analysis.

43. Many users who commented disagreed with the removal of sensitivity analysis as a mandatory item of information. They viewed the analysis as key to understanding the risk exposures associated with defined benefit pension plans and comparing them between entities. A few users provided examples of when sensitivity analysis is particularly useful to them, such as when assessing a major acquisition involving a large defined benefit plan. One user confirmed that sensitivity analysis allows them to recalculate an entity’s pension position if they disagree with the assumptions used.
44. A few users, however, acknowledged there are problems with sensitivity analysis. For example, one noted that sensitivity analysis may falsely give the impression that risk exposures are linear (i.e., an assumption moving by 50 basis points would have double the effect of a 25 basis points movement). Nonetheless, one investor said that despite its flaws, it is better to have sensitivity analysis disclosed. Another investor added that sensitivity should only be disclosed if the reasonably possible effects are material.

Proposed items of information

45. Some users suggested the following additional items of information should be included in the proposals for defined benefit plans:
- (a) breakdown of actuarial gains or losses into those that relate to discount rate changes and those that relate to other actuarial assumptions;
 - (b) demographic details of pension plans—for example, the ages of plan participants;⁴ and
 - (c) information about counterparty credit risk with regard to plan assets.
46. A few users added that the expected return on plan assets (included in paragraph 147I(i) of the proposals) is a particularly important piece of information for them. A few added that information about the deferred tax asset or liability arising from defined benefit plans (paragraph 147F(d) of the proposals) is particularly useful (see related feedback from entities in paragraph 22 of Agenda Paper 11D).

⁴ Paragraph 147S(a) of the proposals identifies ‘the significant demographic and financial actuarial assumptions used to determine the defined benefit obligation’ as an item of information that may enable an entity to meet the related disclosure objective.

Other feedback

Disagreement with the IASB's view on the disclosure problem

47. One global professional body disagrees with the IASB's view that the way disclosure requirements are drafted contributes to the disclosure problem. Instead, it said the problem represents improper application of those requirements. Furthermore, it said investors neither see financial statements as having too much immaterial information, nor consider addressing the disclosure problem to be a high priority.
48. Instead, it suggested that the IASB undertake further empirical research to establish a consensus about the cause of the disclosure problem before deciding on an appropriate solution:⁵

Question for the IASB

Does the IASB have any questions or comments about the user feedback on the proposals?

⁵ The IASB's *Principles of Disclosure* Research Project researched the causes of the disclosure problem and ways the IASB could contribute to addressing the problem. The research included discussion with almost 200 investors and analysts. The findings from this project led the IASB to develop the proposals in the Exposure Draft. The research summary can be found on the IFRS Foundation [website](#).