

# Disclosure Initiative

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World  
Standard-setters  
Conference  
2019

#WSS\_2019

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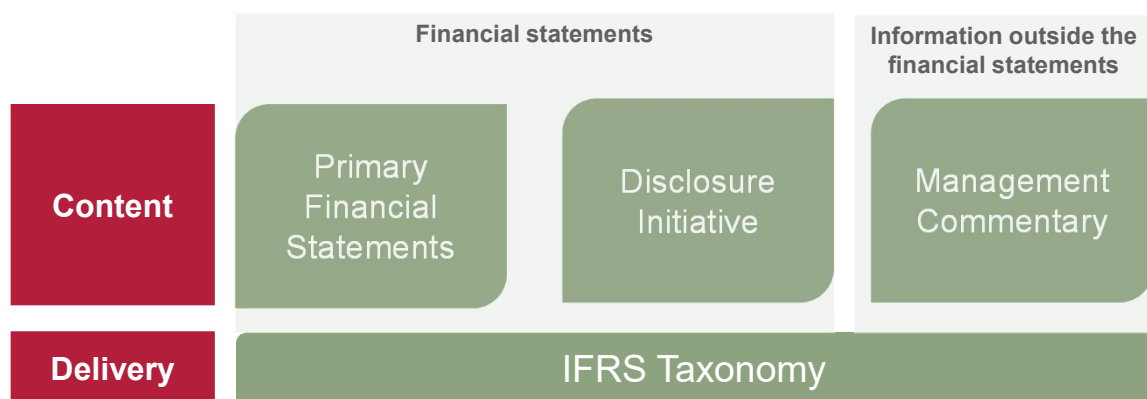


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## Central theme of the Board's work

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### Better Communication in Financial Reporting



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- Insert <https://www.sli.do/> in the browser of your electronic device i.e. mobile phone, tablet or laptop
- Select the correct session from the dropdown menu and wait for further instructions



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## Warming up

I decided to attend this session because ...

- A. I love IFRS disclosures
- B. I have lots of ideas about how disclosures in financial statements could be improved
- C. I have many questions for the presenters
- D. I made a mistake but it is too late to leave the room now



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## Agenda

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The disclosure problem

What has the Board already done?

Targeted Standards-level Review of Disclosures

Disclosure of Accounting Policies



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## The disclosure problem

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



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# What has the Board already done?



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## What has the Board already done?

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1 Removed barriers to the application of judgement



2 Provided tools to help companies make more effective materiality judgements



3 Provided real examples of how companies have improved communication in financial statements



4 Developed materials to help companies provide better information about financing liabilities



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## What has the Board already done?

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Researched what will be **most effective** in helping to address the disclosure problem



<http://go.ifrs.org/di-principles-of-disclosure-project-summary>



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## Research findings and outcomes

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There are multiple contributors to the disclosure problem and **many stakeholders will need to be involved in finding a solution**

Disclosure requirements in IFRS Standards often contribute to the disclosure problem

Standards-level activity would be most effective



Board prioritised **Targeted Standards-level Review of Disclosures** project

Accounting policy disclosures often do not provide the information that users want



Board added a project on **Disclosure of Accounting Policies**



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 **Question 1**

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Do you agree that standard-level activity is needed to address the disclosure problem?

- A. Yes
- B. No
- C. Undecided



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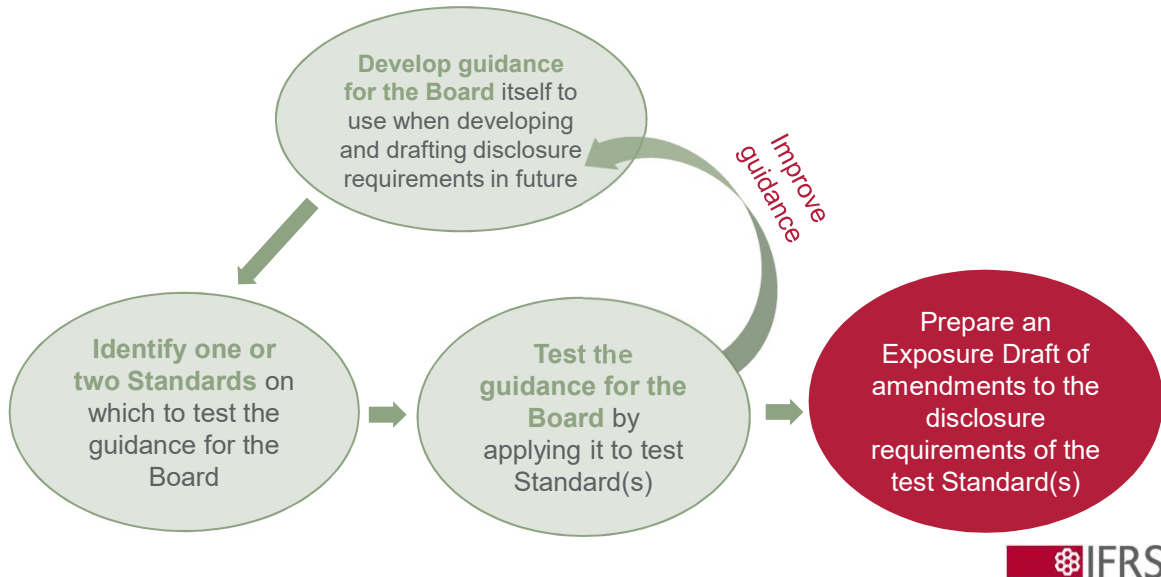
Targeted Standards-level  
Review of Disclosures



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## The Board's approach

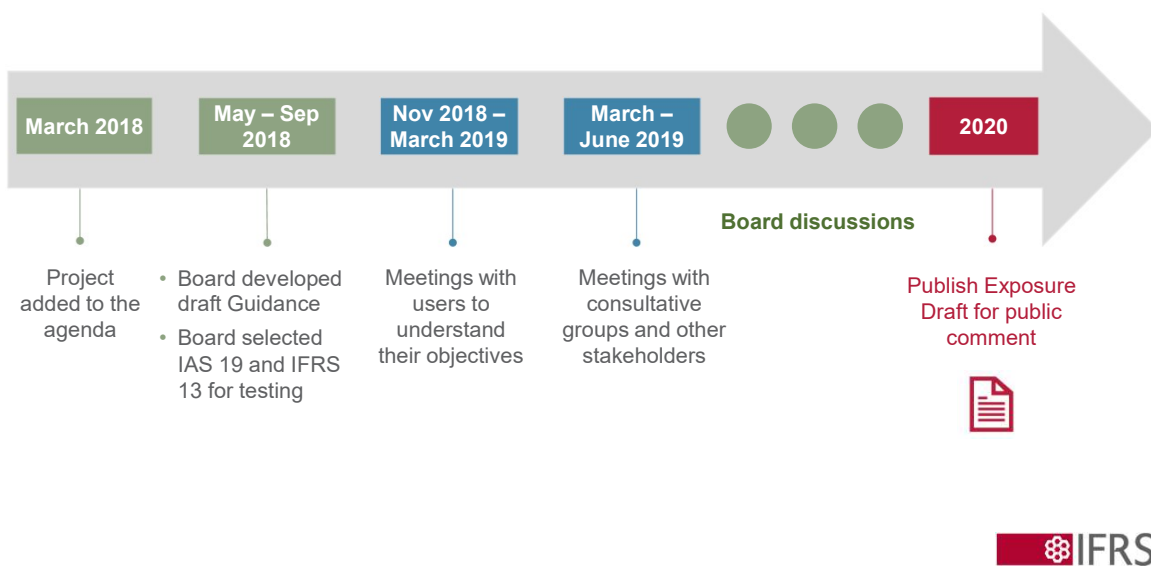
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## Project timeline

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## Overview

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Draft guidance for the Board

2

Outreach conducted

3

IAS 19 *Employee Benefits*

4

IFRS 13 *Fair Value Measurement*



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## ? Question 2

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How do you think the Board could improve the way it develops and drafts disclosure content? (select all that apply)

- A. Clearly explain the objectives of particular disclosure information
- B. Perform more cost-benefit research with stakeholders
- C. Reduce the use of prescriptive language
- D. Develop disclosures at the same time as the related recognition and measurement requirements



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# 1 Draft guidance for the Board – “Content”

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Develop more effective disclosure objectives to help preparers exercise judgement about what to disclose



## Specific disclosure objectives

- Explain **why** particular information is useful to users of financial statements
- Supplement with items of information an entity *could* disclose to meet those objectives

## High-level, catch-all disclosure objective

Prompt entities to consider whether the information provided to comply with the specific disclosure objectives meets overall user information needs on the topic



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# 1 Draft guidance for the Board – “Drafting”

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Communicate intent in an effective way to encourage behavioural change



Use prescriptive language to require entities to comply with disclosure objectives

Use *less* prescriptive language when referring to specific items for disclosure

**Example** An entity **shall** disclose information that enables users of financial statements to understand the key risks of, and restrictions over, the entity’s property plant and equipment.

Users need such information to evaluate how those risks and restrictions might affect the entity’s ability to use, sell or otherwise derive economic benefits from its property, plant and equipment in future reporting periods.

To meet this objective, an entity **[‘shall consider disclosing’ or ‘will normally disclose’]**:

- a. property, plant and equipment pledged as security for liabilities or commitments
- b. ...

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# 1 Draft guidance for the Board – “Process”

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## Understand what information stakeholders want and why

Tailored outreach programme with users of financial statements

Consult with other stakeholders to understand priorities and concerns

Preparers

Regulators

Auditors

Standard-setters

Consider and discuss necessary disclosures as the Board develops proposed recognition and measurement requirements

Leverage learnings from the IFRS Taxonomy and electronic reporting



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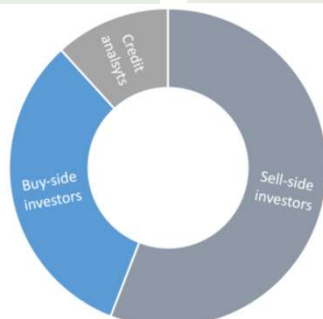
# 2 Outreach conducted on IAS 19 and IFRS 13

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## Tailored user programme

21 meetings

35 users



## Consultation meetings

Capital Markets Advisory Committee (CMAC)

Global Preparers Forum (GPF)

Accounting Standards Advisory Forum

IFRS Taxonomy Consultative Group

Joint CMAC and GPF

Between November 2018 and June 2019



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### ? Question 3

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Do you think employee benefit disclosures provided by companies today are useful?

- A. Many are useful
- B. Some are useful
- C. Only a few are useful
- D. None are useful



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### 3 What we heard on employee benefits

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#### Users of financial statements

Employee benefit disclosures provided today often *do not* meet their primary objectives

Better information about expected cash flow effects would be more useful

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

Users focus *primarily* on defined benefit plans

#### Preparers and other stakeholders

Many of the disclosures required by IAS 19 are difficult and onerous to prepare



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

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

#### For example

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

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

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

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

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

Expected future cash flows resulting from the defined benefit obligation and the nature of those cash flows

#### For example

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

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

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

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

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

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

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

significant actuarial assumptions

drivers of changes in the net defined benefit liability or asset during a period

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

captures the key information needs of users

addresses aggregation and disaggregation of information provided

**Defined contribution plans**

**Short-term employee benefits**

**Include a high-level, catch-all disclosure objective about the ...**

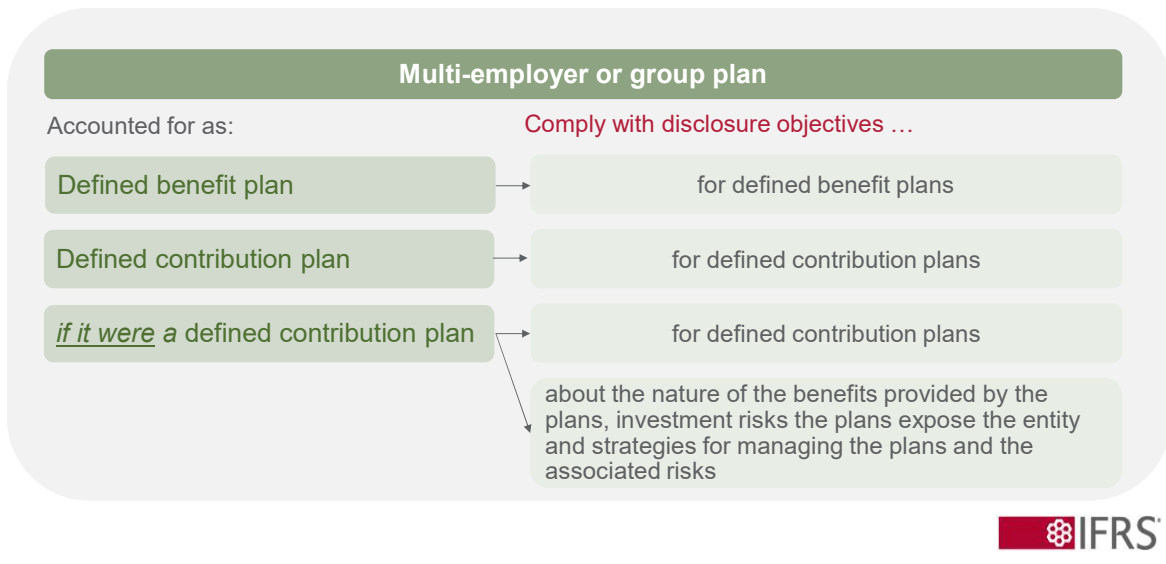
effect on the statements of financial performance and cash flows

**Termination benefits and other long-term benefits**

**Include a high-level, catch-all disclosure objective about the ...**

nature of the benefits provided

effect on the statements of financial performance, financial position and cash flows



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## ? Question 4

Do you agree that the Board proposals on disclosure objectives for employee benefits will result in more useful information?

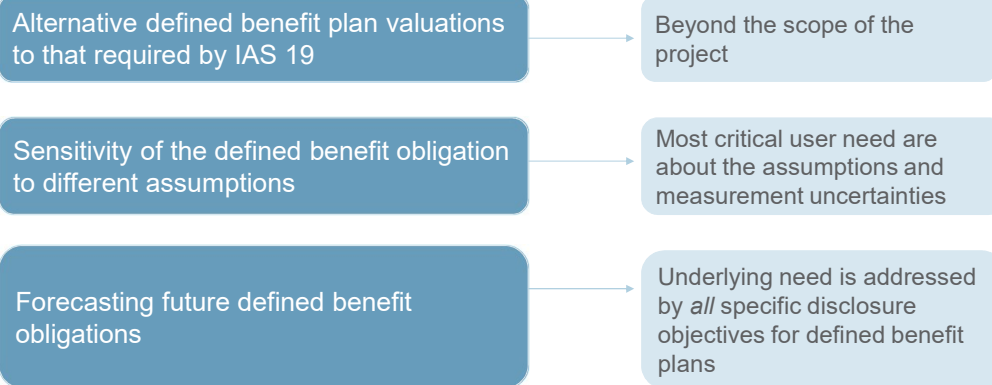
- A. Strongly agree
- B. Agree
- C. Neither agree nor disagree
- D. Disagree
- E. Strongly disagree

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### 3 Other user needs on employee benefits

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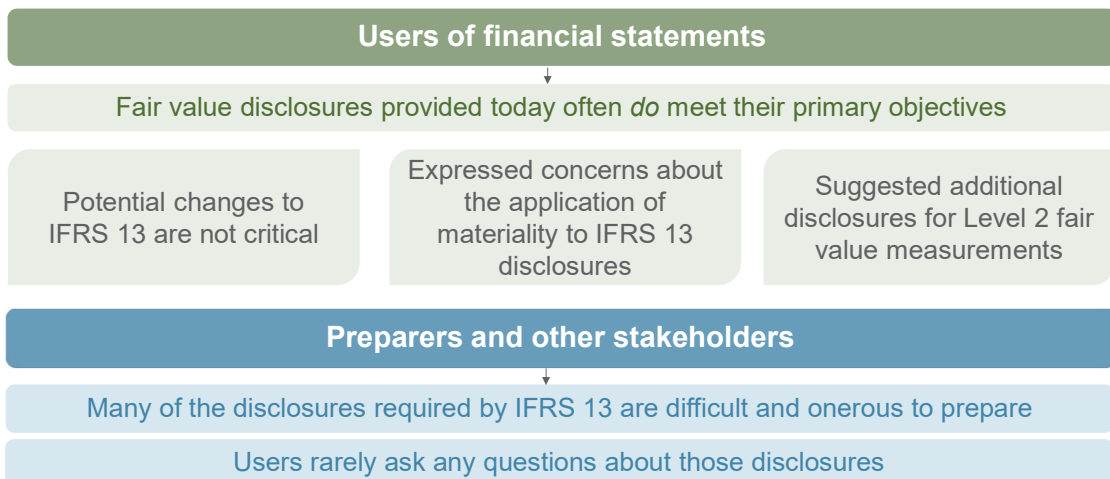
The Board decided not to explicitly address user information needs about:



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### 4 What we heard on fair value measurements

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## ? Question 5

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Which of the following statements do you most agree with on how to address the feedback on Level 2 fair value measurement disclosures?

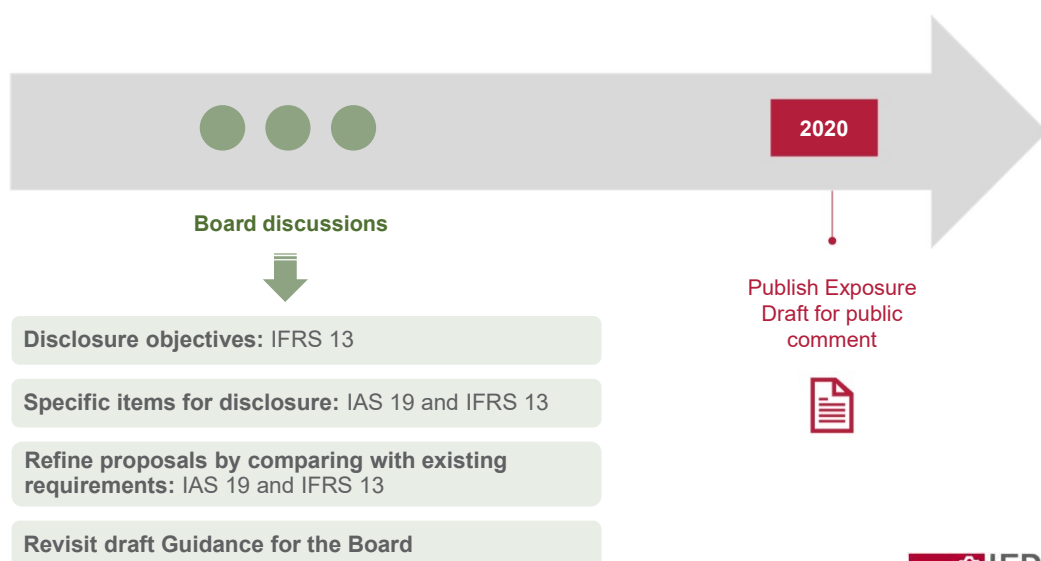
- A. Require entities to provide specific disclosures for Level 2 fair value measurements similar to those required for Level 3 today
- B. Encourage entities to provide those disclosures
- C. Entities should better apply materiality and provide the relevant disclosures for material fair value measurements



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## Future Board discussions

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# Disclosure of Accounting Policies



## Disclosure of Accounting Policies

### Identified problem

Accounting policy disclosures provided today are often not useful to users of financial statements

### Exposure Draft *Disclosure of Accounting Policies* (IAS 1 and IFRS Practice Statement 2)

#### Proposals



Require entities to disclose **material** accounting policies to clarify threshold for disclosing information

Add guidance to IAS 1 and Materiality Practice Statement to help companies apply materiality to accounting policies

#### Next steps



Comment window is open until **29 November 2019**



a mission that matters



working with global accounting experts



access to network of influential people



small organisation with a big impact



unique development opportunities



intellectually stimulating



international environment

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