Background and project approach

The disclosure problem

Stakeholder feedback

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

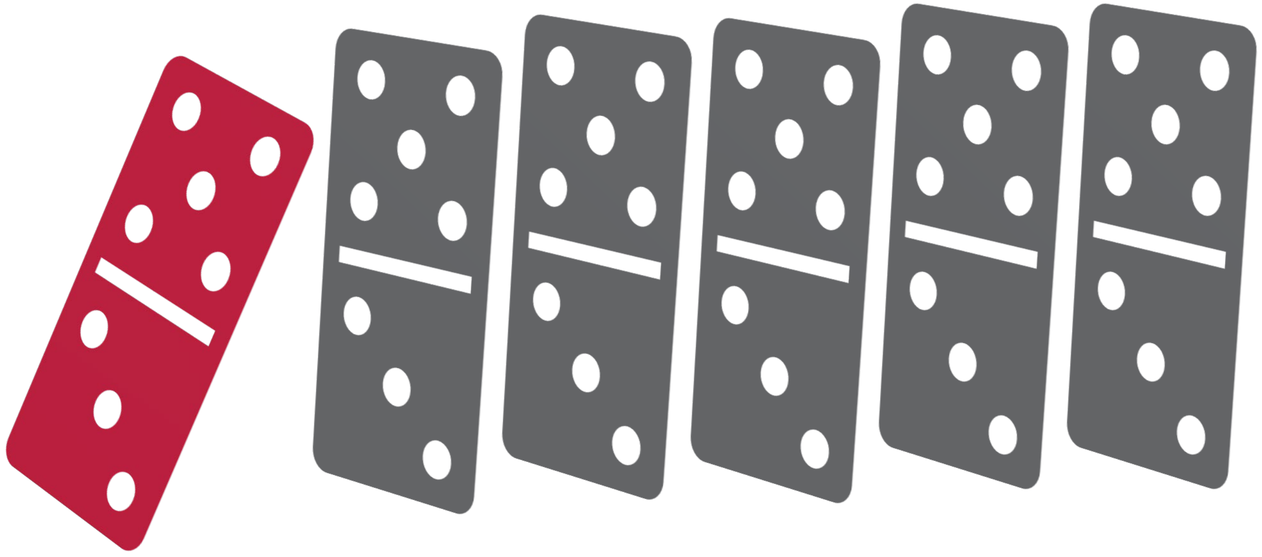
Standard-level activity would be the most effective thing the Board can do to help stakeholders play their part in addressing the problem

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

Proposed new approach

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

Detailed disclosure objectives

What is the issue?	Board's main proposals
The easiest way to achieve compliance is to apply disclosure requirements like a checklist	**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

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.

Possible effects

Need for judgement

Current requirements	Prescriptive, Standards-level requirements to **disclose particular items of information**	+	Overaraching **requirement in IAS 1** to apply judgement in complying with those requirements
Proposals	Prescriptive, Standards-level requirements to apply judgement and **satisfy disclosure objectives**	+	**Additional guidance** included in the Standards help companies determine how to comply with those objectives

Under both scenarios:

- Companies are required to apply judgement and disclose all material information
- Audit and enforcement includes reviewing the application of judgement

How might the proposed approach help audit and enforcement of judgement?

Reinforcing IAS 1 requirements at an individual Standards level	
	Compliance with disclosure objectives can only be met by applying judgement
	Removes any perception that applying requirements like a checklist achieves compliance

Providing a sound basis for challenging judgement

Robust process for developing requirements based on investor information needs

Requirements and guidance included in the Standards

Detailed and specific disclosure objectives	Explanations of what investors may do with the information provided
Explicitly link disclosure objectives with items of information	Items of information, application guidance and illustrative examples

How might the proposed approach affect comparability?

Board’s view on comparability

Information between entities with similar circumstances should be comparable

Uniform and comparable information are not the same

If each entity applies judgement to meet the same disclosure objective, the content of that information should be comparable in all material respects even if the information looks different.

This results in **meaningful comparability**.

Proposals can result in similar information

The proposals:

- include specific and detailed disclosure objectives
- require companies to meet each objective
- explicitly link each objective to items of information

The proposals would result in comparable information between companies when that information is:

- material to both companies; and
- useful to investors.

IASB-EAA FINANCIAL REPORTING STANDARDS WORKSHOP ON DISCLOSURE REQUIREMENTS IN IFRS STANDARDS

EFRAG's preliminary views (Draft Comment Letter)

1 July 2021

European Reporting Lab @EFRAG

EFRAG

European Financial Reporting Advisory Group

DISCLAIMER

The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

CONTENT

EFRAG's Project Overview

The timeline

March 2021	May 2021	August 2021	September 2021	15 October 2021
IASB ED	EFRAG DCL	Field test completion	Outreach events based on field test	Comment period ends

Participants can share results in one, some or all of the following ways:

- Mock note disclosures based on the proposals
- Questionnaire about developing mock disclosures
- Meeting to discuss mock disclosures, follow-up questions, issues and solutions

Based on results, we will hold outreach events to share findings and gather responses

GENERAL COMMENTS

- EFRAG supports the objective of the project
- IASB's focus is on the provision of more relevant disclosures (and less irrelevant ones) and not on changing the volume of disclosures
- EFRAG welcomes the development of a rigorous methodology
- **Developing and testing such an approach has merits and should be encouraged as we support the reduction of detailed disclosure checklists**
- EFRAG support to work more closely with users early in the process to understand what information they need, and how it is intended to be used
- EFRAG recommends to explain the relationship between individual disclosure objectives and the concept of materiality
- EFRAG invites the IASB to explain whether and how the objectives serve the stewardship objective of financial reporting
- EFRAG encourages the IASB to further consider the interaction between the proposals in the ED and the increased use of digital reporting

A LIST OF MINIMUM REQUIREMENTS?

- **KEY QUESTION TO EFRAG'S CONSTITUENTS**

Do you agree that the IASB only mandates the overall and specific objectives for each IFRS Standard, or do you consider that the IASB should also mandate a list of minimum disclosure requirements necessary to meet the disclosure objectives?

- The proposed approach makes minimum requirements an exception
- With a higher level of judgement, the proposals will likely create implementation challenges and tensions with comparability
- The success of the proposed approach depends on the IASB striking the correct balance between a tier of disclosures that are always required (that ensure a minimum level of comparability), and objectives to elicit additional entity-specific disclosures
- Absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing. It would also make review of such disclosures and enforcement of the requirements more difficult for auditors and regulators and may ultimately not lead to the intended changes and improvement to information relevance

OTHER CHALLENGES

On the use of a less prescriptive language

- The expression 'while non-mandatory' might be misunderstood and result in material information being omitted
- Suggest that the IASB clarifies in the body of the proposed amendments that this expression does not mean that the items of information are voluntary and that entities should consider these items when assessing meeting the specific objectives

Users' needs

- EFRAG also observes that different type of users may have different information needs (e.g., equity investors vs lenders) and these needs can vary over time. Assessing the 'common information needs' of a variety of users and the dynamic nature of their needs over time create challenges to preparers, auditors and enforcers

TESTING HOW CURRENT PRACTICES WOULD CHANGE

- Comprehensive outreach and field testing needed
- Final impact of the proposals depends, to some extent, on the willingness of preparers to undertake a change to their approach to the use of judgement. In some cases, a tendency to maintain the existing requirements or even an increase of disclosures cannot be excluded
- Assessing the costs/benefit profile, as applied to the two selected IFRS Standards, will be paramount in demonstrating the validity of the proposals
- EFRAG always considers it essential that any proposed change to the existing requirements is justified by an appropriate cost/benefit balance
- A critical feature of the revised approach to the disclosure is to define an appropriate set of minimum requirements. Understanding the potential for a loss of information would provide input on such minimum requirements
- Auditors and regulators also play a role to promote use of judgement
- Need to involve small and large entities
- **EFRAG is concerned that the response period is too short to conduct a proper field test. Therefore, EFRAG proposes a substantially longer period for consultation**

IASB-EAA FINANCIAL REPORTING STANDARDS WORKSHOP ON DISCLOSURE REQUIREMENTS IN IFRS STANDARDS

Some insights from research

Paul André
HEC Lausanne

CONSTRAINTS OF VOLUNTARY DISCLOSURES

GRAHAM ET AL. JAE 2005

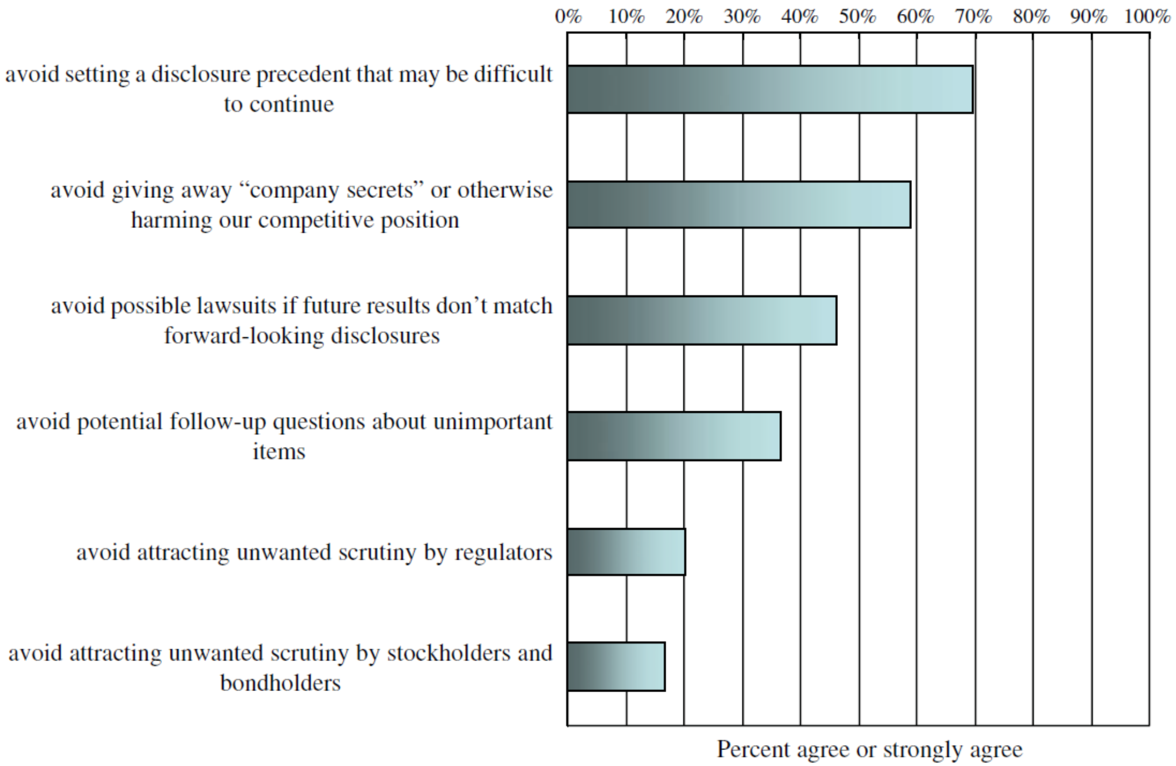


Fig. 11. Responses to the question: "Limiting voluntary communication of financial information helps…" based on a survey of 401 financial executives.

COMPLIANCE (TSALAVOUTAS, TSOLIGKAS & EVANS 2020)

- 70 post-2005 IFRS compliance studies
- Single country and small markets or Large EU firms
- Single scoring method (mostly Cooke's method)
  - All have limitations
  - Capturing quantity but not necessarily quality
- Few consider materiality
  - Overstating lack of compliance
- Standards with poor compliance
  - IAS 17, IAS 21, IAS 28, IAS 31, IAS 39, IAS 41, IFRS 6, IFRS 8, IFRS 7, IAS 36, IAS 12, IAS 19
- Cross country differences and linked to quality of enforcement, audit quality and firm size
- Few examine any market consequences
  - Given weak identification strategies, causal link is questionnable

COMPLIANCE (HELLMAN, CARENYS & MOYA GUTIERREZ, AiE 2018)

- 81 papers 1998-2017
- Lower compliance in weak legal & institutional contexts
- Methodological problems with indices used
- No benchmark
- No theory
- Larger firms, listed firms, with better corporate governance are more compliant
- Cultural influence

COMPLIANCE (HELLMAN, CARENYS & MOYA GUTIERREZ, AiE 2018)

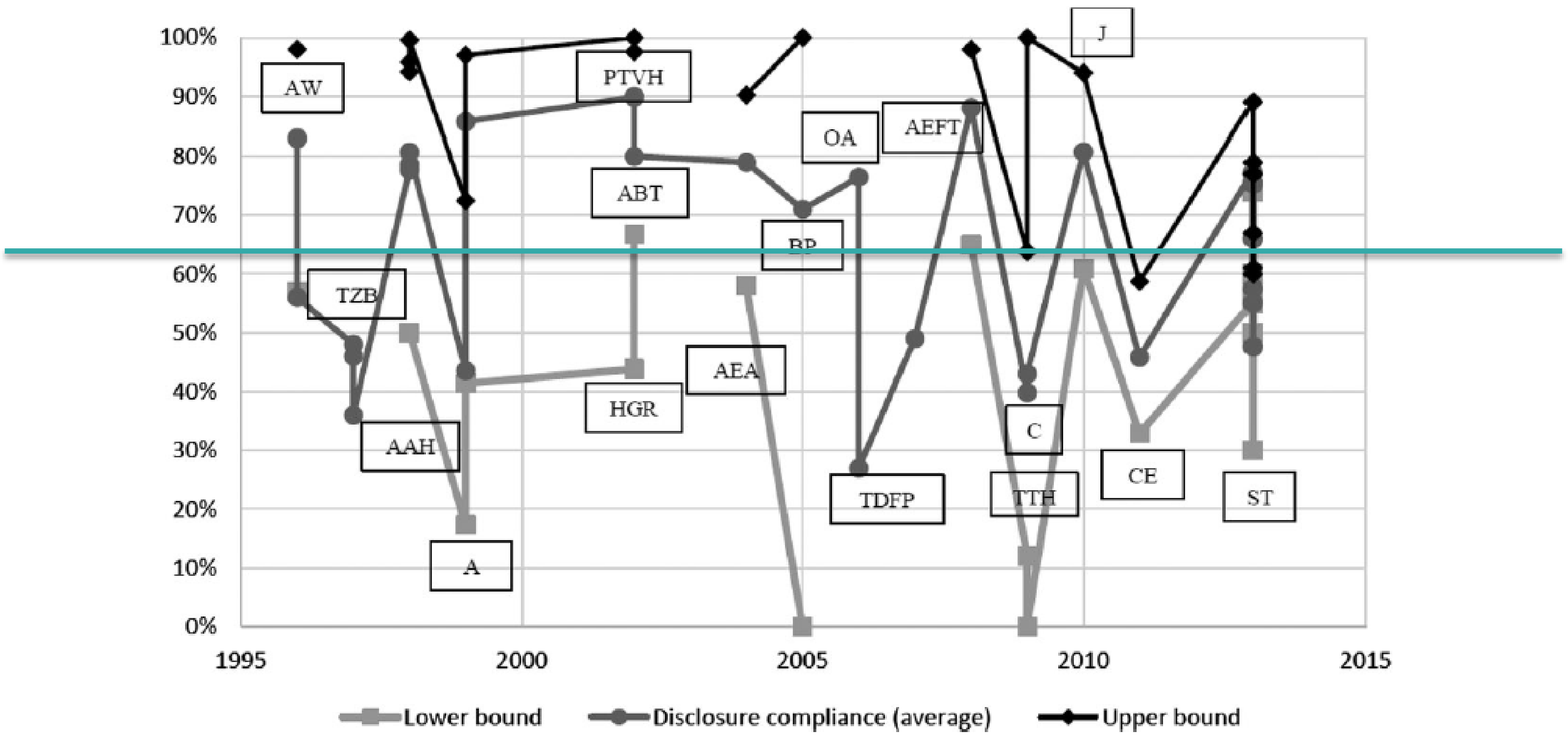


Figure 1. Compliance with IAS/IFRS disclosure requirements in 17 studies of emerging and developing countries during 1996–2013. Each dot represents a country/region covered by a study in a particular year.

COMPLIANCE (HELLMAN, CARENYS & MOYA GUTIERREZ, AiE 2018)

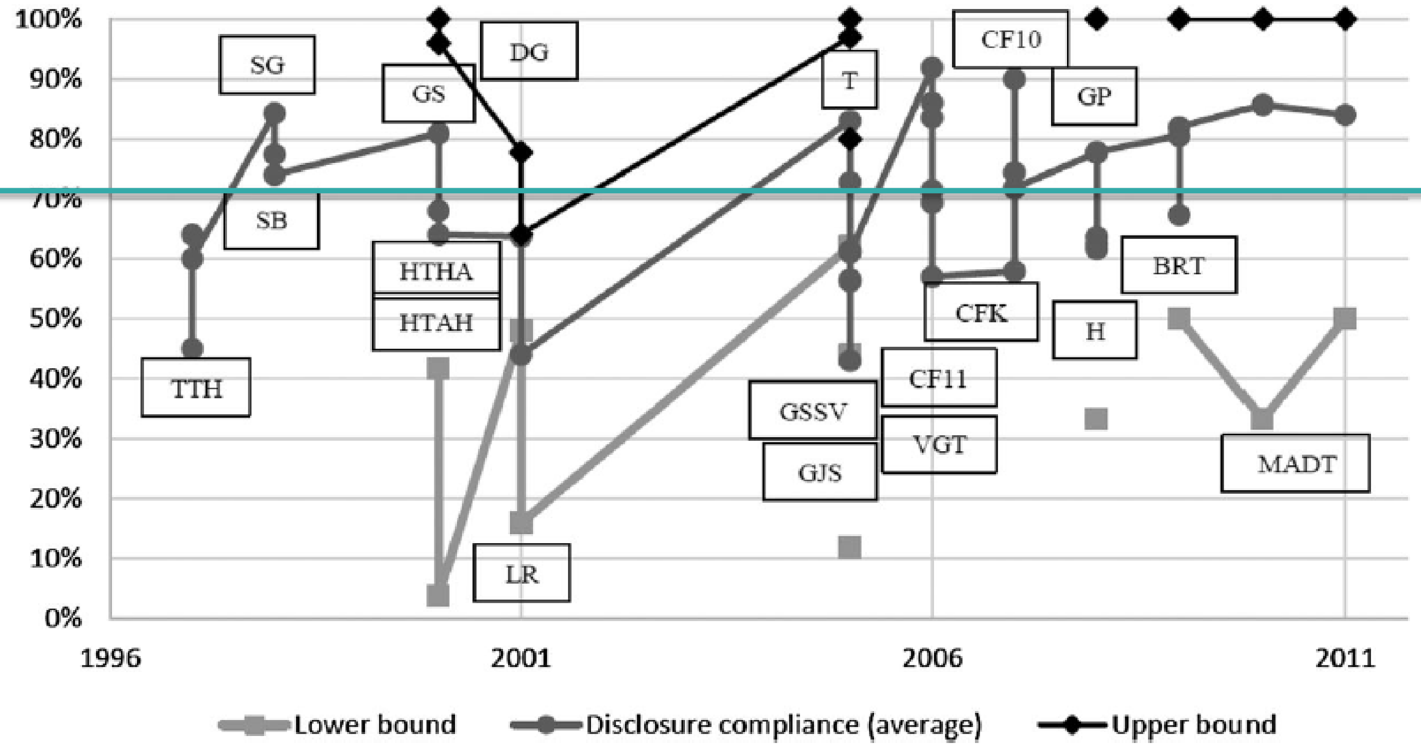


Figure 2. Compliance with IAS/IFRS disclosure requirements in 19 studies of developed countries during 1997–2011. Each dot represents a country/region covered by a study in a particular year. The figure shows

COMPLIANCE (HELLMAN, CARENYS & MOYA GUTIERREZ, AiE 2018)

- Business combinations, goodwill and impairment test
  - Substantial non compliance (IFRS 3 and IAS 36)
- Financial instruments and risk reporting
  - Compliance hard to measure when principle-based
- Segment reporting
  - Flexibility and low enforceability leads to high variation in disclosure quality and quantity
  - Cross firm comparability is sacrificed!
- Others
  - Low with the exception of IAS 1

DISCLOSURE (HELLMAN, CARENYS & MOYA GUTIERREZ, AiE 2018)

- Is there too much ‘irrelevant’ information?
  - Users prefer more to less
  - Users can decode
- Is there enough information?
  - May need to be more decision context specific
  - Need to consider enforcement context

DISCLOSURE

- Barker et al (AiE 2013) on EFRAG/ANC/FRC (2012) + ICAS/NZICA (2011)
  - Principle can lead to many outcomes
  - Principle based disclosure more difficult to enforce and audit
  - High incentive situations more likely to lead to poor disclosure quality

USERS AND THEIR NEEDS (CASCINO ET AL., AiE 2014)

- Significant variety of key capital providers of large European public companies
  - Professional equity investors
  - Outside private/retail investors
  - Inside equity investors
  - Public and private debt providers
  - Trade creditors
- Significant variety in different capital providers' information needs
- Use information in different ways
- Objectives sometimes compete (valuation vs stewardship)
- FR information is important but not the only source
- Identifying the typical target user is difficult
- What are the competitive advantages of financial reporting
  - Verifiability, Objectivity, Regularity, Standardization

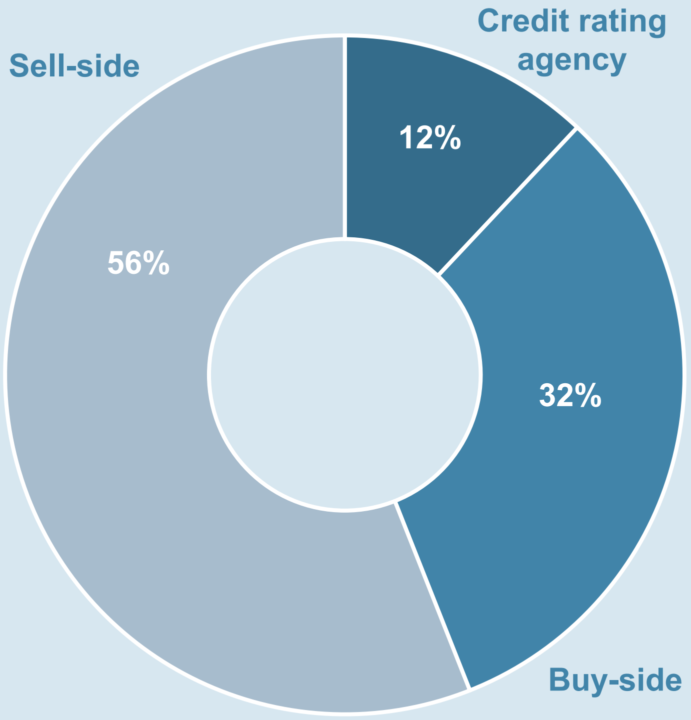
CONCLUSION (LEUZ & WYSOCKI 2016)

- Many research opportunities
- Need to link regulatory change to disclosure outcomes and their economic consequences
- Identification and measuring costs/benefits and the construct FRQ is a challenge
  - Pilot studies/field experiments
  - New techniques (NLP)

Testing the approach—proposed amendments to IFRS 13 and IAS 19

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

Key messages from stakeholders

Proper application of materiality is critical. Detailed disclosures often:

- focus on immaterial fair value measurements; and
- do not contain 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

How did the Board use the feedback?

- **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 disclosure objectives—fair value measurements

Key things investors want to understand….

The **exposure to uncertainties** associated with **material** fair value measurements

Amount, nature and other characteristics of items measured at fair value—including how subjective the measurements are*

Measurement uncertainty and significant techniques and inputs used

Reasonably possible alternative fair value measurements

How and why fair value measurements have changed during the reporting period

* A similar disclosure objective is proposed for items not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

Proposed amendments to IAS 19

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

How did the Board use the feedback?

- **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 disclosure objectives—defined benefit plans

Key things investors want to understand…

Amounts in the primary financial statements and how they reconcile to the detailed notes (‘an executive summary’)	Nature of promised benefits and risks the company is exposed to
Expected effects on future cash flows and the nature of those effects	How long will payments will continue to be made for closed plans
Measurement uncertainty and significant assumptions used	How and why balance sheet amounts have changed during the reporting period

Potential research areas—proposed approach

- Disclosure quality and behaviour / prevalence of a ‘checklist approach’
  - How often do note disclosures contain *all* items explicitly required by the Standards and *only* items explicitly required by the Standards?
  - How often do companies disclose entity specific information that is not explicitly identified in the Standards or goes beyond the requirements in the Standards? What prompts them to do this – for example: is it common for any particular assets or liabilities? Particularly judgemental areas of the Standards? Particular industries?
  - How often do companies disclose immaterial, or boilerplate, information? What effect does this have on the understandability of note disclosures overall?

- Effects of disclosure objectives in recently issued IFRS Standards:
  - What effect do disclosure objectives have in practice? Do they encourage disclosure of entity specific information? Elimination of immaterial information?
  - Have recently issued Standards led to more decision-useful disclosure information for investors?

Potential research areas—IFRS 13

Ultimate question: are disclosures effective at meeting user information needs?

Some examples….

- Do disclosures focus on material fair value measurements? For example:
  - Do disclosures explain what is in each class of material fair value measurement—eg are descriptions sufficiently informative?
  - Is it clear which material fair value measurements are subject to uncertainty?
  - Do disclosures contain insignificant detail, or detailed disclosures about immaterial fair value measurements?

- How do disclosures differ between financial institutions and non-financial institutions? Do both provide fair value measurement information that is relevant to them?

Potential research areas—IAS 19

Ultimate question: are disclosures effective at meeting user information needs?

Some examples….

- Understandability of defined benefit disclosures, for example:
  - Can disclosures be easily linked to the primary financial statements?
  - Do defined benefit disclosures disaggregate items with different features, without including insignificant detail?
  - Can disclosures be understood by a user without specialist knowledge?
  - Are narrative disclosures entity specific and informative?
- Expected cash flow effects of defined benefit plans:
  - Do companies typically disclose information about cash flow effects beyond what is required today? Why?

Proposed changes to IFRS13 and IAS19 disclosures

EFRAG's initial views on the IFRS 13 proposals

Topic	EFRAG position	Preliminary assessment
Approach	Overall and specific disclosure objectives for items measured at fair value or for which fair values are disclosed could be useful to understand the information needs of users	✓
Sensitivity disclosures L3	More pertinent than alternative fair values. EFRAG is also concerned about trade-off between costs and benefits and increasing the burden on preparers significantly	!
Question to constituents	Do you agree with the EFRAG position that the proposal on the provision of alternative fair values is too burdensome and raises issues of understandability, or do you consider that the benefit to users would outweigh the costs? Do you have any alternative proposals?	?
Mandatory items	EFRAG agrees with these proposals	
Judgement	Significant judgements and assumptions are useful as entities should have some flexibility to determine the form and level of disclosure that best meets users' needs. Level of judgement must not be so high that it may impair the level of relevance, reliability and comparability of the information. Therefore, EFRAG recommends to the IASB to investigate further the practical application of the disclosure requirements.	✓ !

EFRAG's initial views on the IAS 19 proposals

Topic	EFRAG position	Preliminary assessment
Approach - defined benefit plans	EFRAG generally agrees that the overall disclosure objective for defined benefit plans in the ED could be useful for preparers. This will help entities to understand the overall information needs of users of financial statements in relation to defined benefit plans. EFRAG notes that the extent of the effects of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information provided.	✓
Nature of defined benefit plans	EFRAG notes that this is not defined. This may lead to increasing narrative information without substantial improvement.	!
Benefits and costs	As for other sections, EFRAG is unable to assess whether benefits will outweigh the costs of the proposals and will obtain this information through a field test.	?
Sensitivity analysis	Current requirement proposal to be replaced with a broader objective that requires information that enables users of financial statements to understand the significant actuarial assumptions used. While this information is costly, it is also useful to users, therefore EFRAG considers that this should be mandatory.	!
Question to constituents	Do you agree with the IASB's proposal that benefits provided by the current sensitivity analysis would not outweigh the cost to entities of providing that information and, therefore, should not be required?	?

EFRAG’s initial views on the IAS 19 proposals

Topic	EFRAG position	Preliminary assessment
Defined contribution plans	EFRAG expected additional disclosure requirements to reflect certain risks especially around hybrid plans.	!
Other employee benefits	EFRAG agrees with the overall disclosure objective for these types of benefits (short-term, other long-term and termination benefits)	✓
Multi-employer plans	Compliance with overall disclosure objective is insufficient to communicate the risks, therefore EFRAG agrees with the proposed specific objectives	✓

Comments on EFRAG draft comment letter

EFRAG's draft comment letter is available here on EFRAG's website: www.efrag.org

Comment deadline: 15 October 2021

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The pioneering spirit

Proposed amendments to IFRS 13
Some reflections

Andrei FILIP filip@essec.edu

July 1st 2021

Background IFRS 13

Recent **Post-Implementation Review** of IFRS 13 Fair Value Measurement

Conclusions of the report

- The disclosure of the FV hierarchy is **beneficial to capital markets' participants** such as investors and financial analysts, allowing them to be more precise in their valuation of a firm and in the forecasting of its future earnings
- While fair value overall is value relevant, the relative ordering of the value relevance of various Levels **seems to vary according to several factors**, including the nature of the underlying assets, the market conditions, the institutional environment and managerial intent
- Depending upon their **incentives**, including the corporate governance, managers take advantage of their measurement discretion either to inform financial statements users (and thus increase the quality of reporting) or to deceive them (e.g. to achieve some earnings targets)

Overall, the standard **works** as intended

IFRS 13 – Additional evidence

- **Increasing trend** in value relevance of all FV levels – learning effect?
- Small difference between the value relevance of **L1 and L2** FVs, with **L3 FVs being perceived as having lower value relevance**
- It remains unclear whether the lower value relevance attributed to L3 is due to **uncertainty** in L3 FVs, a **perceived bias in measuring** FVs, or a **combination** of the two
- Incrementally higher value relevance assigned to all FV levels under **U.S. GAAP** compared to **IFRS**, but this gap diminishes over time

Are the proposed changes going to modify these trends?

- Focus on **uncertainty** might be the answer

BNP PARIBAS

The bank for a changing world

In millions of euros	31 December 2020											
	Financial instruments held for trading				Instruments at fair value through profit or loss not held for trading				Financial assets at fair value through equity			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities	**135,850**	**24,386**	**396**	**160,632**	**671**	**1,659**	**4,965**	**7,295**	**43,538**	**13,505**	**1,147**	**58,190**
Governments	81,126	7,464		88,590				-	27,188	3,801		30,989
Other debt securities	18,264	16,305	137	34,706		1,141	401	1,542	15,109	9,491	392	24,992
Equities and other equity securities	36,460	617	259	37,336	671	518	4,564	5,753	1,241	213	755	2,209
Loans and repurchase agreements	**-**	**243,567**	**371**	**243,938**	**-**	**218**	**722**	**940**	**-**	**-**	**-**	**-**
Loans		4,299		4,299		218	722	940				
Repurchase agreements		239,268	371	239,639				-				
FINANCIAL ASSETS AT FAIR VALUE	**135,850**	**267,953**	**767**	**404,570**	**671**	**1,877**	**5,687**	**8,235**	**43,538**	**13,505**	**1,147**	**58,190**

But also **pp 71 to 80** of additional disclosures

Assets and liabilities held at fair value

As at 31 December	2020 Valuation technique using Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m	2019 Valuation technique using Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2019 Total £m
Trading portfolio assets	60,671	65,416	1,863	127,950	60,352	51,579	2,264	114,195
Financial assets at fair value through the income statement	4,503	162,142	8,506	175,151	10,445	114,141	8,500	133,086
Derivative financial assets	9,155	288,822	4,469	302,446	5,439	220,642	3,155	229,236
Financial assets at fair value through other comprehensive income	19,792	58,743	153	78,688	18,755	46,566	429	65,750
Investment property	–	–	10	10	–	–	13	13
Total assets	94,121	575,123	15,001	684,245	94,991	432,928	14,361	542,280

But also **pp 315 to 325** of additional disclosures

Proposed amendments to IAS 19 disclosures – Evidence based on prior literature and reflections

VICKY KIOSSE
Exeter University Business School

July 1st 2021

IAS 19

- Exposure draft - Disclosure requirements
- Prior literature and some reflections
- Conclusion and overall reflections

IFRS Standards – Exposure Draft

- The Board proposes to replace the disclosure requirements in IAS 19 with a new set of disclosure requirements that would be based on the proposed Guidance

- **Overall / Specific Disclosure objectives** and **items of information** to enable an entity to meet the specific disclosure objectives

(Reference: IFRS Standards Exposure Draft, March 2021)

IFRS

Evidence from selected prior studies

- Prior literature has examined how the market values alternative pension cost components

- Overall, the findings suggest that the market values alternative pension cost components differently

Barth, M.E., Beaver, W.H. & Landsman, W.R. (JAE, 1992)

Evidence from selected prior studies *continued*

- Other studies have examined the ability of investors and analysts to process and incorporate pension information in prices and earnings forecasts
- Overall, the results reveal that prices and forecasts do not fully incorporate the anticipated future earnings effects emanating from changes in pension information
- Rather, investors and analysts only gradually incorporate this information into prices and forecasts

Picconi (TAR, 2006)

Evidence from selected prior studies *continued*

- Firms with severely underfunded plans are significantly overvalued

- Findings suggest that investors do not incorporate the anticipated effect of pension liabilities on future earnings and cash flows and they are surprised when the negative implications of pension underfunding become apparent

Franzoni, F. & Marin, J.M. (JF, 2006)

Evidence from selected prior studies *continued*

- Prior literature has studied the hidden pension deficits of companies using disclosures of early adopters of IAS 19
- The findings suggest that financially risky companies that reported high pension deficits under IAS 19 subsequently reduced leverage and incurred higher costs of debt
- The introduction of a more transparent regime allows the credit market to correct estimation errors

Kalogirou, F. , Kiosse, P.V. & Pope, P. (EAR, 2020)

Evidence from selected prior studies *continued*

- Prior literature has also examined the choice to present pension interest cost and expected return on assets / net interest cost in 2013 in operating or financial income

- The findings show that the choice is driven by the impact on Earnings before Interest and Tax

Glaum, M., Keller, T. & Street, D.L. (ABR, 2018)

IFRS

Evidence from selected prior studies

- The prior literature documents a positive relation between pension deficits and the cost of bank loans
- Banks increase the number of loan covenants and shorten loan maturity for firms sponsoring DB plans with larger deficits
- Findings are interpreted as being consistent with the notion that pension deficits are an additional source of risk

Balachandran, B., Duong, H.N. & Vu V.H. (JFQA, 2018)

Evidence from selected prior studies

- Finally, findings reported in the literature suggest that pension accounting has real effects
  - on pension asset allocation (Anantharaman & Chuk, TAR 2018; Barthelme, Kiosse & Sellhorn, EAR 2019)
  - DB plan freeze decisions (Beaudoin, Chandar & Werner, RAF 2010)

Academic Reflection – Overall Comments

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