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Disclosure Initiative – Targeted Standard-level Review of Disclosures

Issues paper

Objective

- 1 The objective of this session is to provide an update on the IASB's project *Disclosure Initiative - Targeted Standards-level Review of Disclosures* and obtain EFRAG TEG-CFSS's views on the next steps in the project, which will be discussed at the ASAF July 2018 meeting.

Background

- 2 At its 21 March 2018 meeting, the IASB considered the feedback received in response to its Discussion Paper *Disclosure Initiative - Principles of Disclosure* ('the IASB DP') and tentatively decided to:
 - (a) develop guidance for the IASB to use when developing and drafting disclosure requirements. The IASB tentatively decided to develop this guidance as a set of the IASB decisions and obtain formal stakeholder feedback when the guidance was subsequently used as part of standard-setting;
 - (b) identify one or two IFRS Standards on which to test the guidance developed for the IASB;
 - (c) test the guidance for the IASB by applying it to the Standard(s) identified in (b). The objective of applying the guidance to the Standard(s) would be improve the usefulness of disclosures provided to the primary users of financial statements. The objective would not be to reduce the volume of disclosure requirements, although this may be a consequence; and
 - (d) prepare an Exposure Draft of amendments to the disclosure requirements of the Standard(s) identified in (b). The IASB tentatively decided that the Basis for Conclusions for the Exposure Draft would include a description of the IASB's approach to developing amendments to the disclosure requirements to give stakeholders the opportunity to comment on the guidance for the IASB.
- 3 In response to these decisions, the IASB staff has been developing analysis and recommendations as a three-step process:
 - (a) Step 1 (May 2018 IASB meeting): how the IASB will use disclosure objectives in future;

- (b) Step 2 (June 2018 IASB meeting): the process that the IASB will use to develop the content of disclosure objectives and requirements: and
 - (c) Step 3 (to be discussed in July 2018): drafting disclosure requirements.
- 4 As part of the third step, the IASB will consider in particular in July 2018:
- (a) the language used;
 - (b) how to avoid cross-standard issues (for instance requirements or multiple similar requirements in different Standards); and
 - (c) effective communication.
- 5 Finally, the IASB staff will summarise all of the decisions made by the IASB relating to the draft Guidance at its September 2018 meeting. At this point, before moving on to apply the draft Guidance to the test Standard(s), the IASB staff will ask the IASB to consider whether it is satisfied with the draft Guidance.

Summary of recent decisions made by the IASB

May 2018 IASB meeting (Step 1)

- 6 The IASB tentatively decided that in future, it would:
- (a) base all disclosure requirements on one or more specific objectives. These objectives should explain why the information was useful and how users are expected to do with the information; and
 - (b) clearly link each item of information with the related objective(s).
- 7 The IASB also tentatively decided that it would continue to use high-level disclosure objectives within individual IFRS Standards. Entities should consider the overall disclosure relating to a particular topic in their financial statements and whether the information provided met user information needs.

June 2018 IASB meeting (Step 2)

- 8 The IASB discussed;
- (a) a proposed approach for the development of disclosure objectives and requirements; and
 - (b) considerations for the selection of IFRS Standard(s) for testing.
- 9 The IASB staff will be seeking specific input from ASAF members on both issues at its July meeting.
- 10 The IASB also discussed a five-step approach to developing disclosure objectives and requirements:
- (a) step one - understanding the existing issue;
 - (b) step two - understanding what stakeholders want and why;
 - (c) step three - understanding what disclosures would be required to support proposed recognition and measurement requirements;
 - (d) step four - performing a cost / benefit analysis; and
 - (e) step five - understanding and documenting the effects of the proposed disclosure objectives and requirements.
- 11 **Step 1** would typically occur during the research phase of the project—particularly during the development of a Request for Information, Research Paper; or Discussion Paper.

- 12 Activities which may help the IASB obtain and analyse feedback on what users and other stakeholders want and why include, but are not limited to:
 - (a) Outreach programme;
 - (b) feedback received through comment letters from consultations.
- 13 **Step 2** focuses on both users of financial statements and other stakeholders and would typically occur during the development and/or analysis of a Discussion Paper; or Exposure Draft. In particular the IASB will need to obtain an understanding of the information needs of primary users:
 - (a) what information they want, and why;
 - (b) how they will use the information;
 - (c) how precise and granular information needs to be; and
 - (d) the relative priorities of the requested information. For example, the IASB should ask users to distinguish between information (that is critical to their analysis and information that is 'nice to have'.
- 14 For preparers, the IASB will need to fully understand the cost consequences of existing and potential new disclosure requirements. This might include identifying:
 - (a) requirements that preparers consider to be unduly onerous and understanding why that is the case;
 - (b) alternative disclosures that might meet the same information need but be less costly to prepare;
 - (c) whether preparers typically disclose additional information that is useful to their stakeholders but is not required by IFRS Standards, and why;
 - (d) regulatory consequences or the interaction with jurisdictional requirements. This might include any jurisdictional requirements that are considered to be particularly useful that are not required by IFRS Standards; and any unhelpful overlap or duplication between disclosure requirements in IFRS Standards and local requirements.
- 15 **Step 3** aims at ensuring that that disclosures required to support the proposed recognition and measurement requirements are considered in light of the stakeholder needs identified in Step Two. This step would typically occur during the development and/or analysis of an Exposure Draft.
- 16 **Steps 4 and 5** will consider the effects of the proposed disclosure requirements on preparers and the perceived benefit to users. Further, this analysis should also consider the prioritisation of disclosure objectives and requirements. According to the IASB staff proposals, his step will most likely occur during the development of final documents for publication, in light of feedback received in response to an Exposure Draft.
- 17 IASB members were generally supportive but provided the following comments:
 - (a) the approach should be flexible and iterative rather than applied in sequence;
 - (b) there should be a balance when reaching out to stakeholders between the views of users and the views of other parties (including preparers);
 - (c) a cost-benefit assessment should start from the early stage of the project;
 - (d) the need to clarify the interactions of the proposed approach with the general due process as set up in the Due Process Handbook and the distinction between some of steps, for instance step two and three; and

- (e) some suggested merging steps 3 and 4 and referring to the guidance on effect analysis developed by the IASB.
- 18 The IASB also tentatively decided that, when developing disclosure objectives and requirements in future, the IFRS Taxonomy team should be involved in an ‘advisory capacity’. The objective is, more particularly, to help the IASB project team fully understand:
- (i) the current disclosure objectives and/or requirements;
 - (ii) any issues with current disclosure objectives and/or requirements;
 - (iii) any potential issues with disclosure proposals;
 - (iv) whether or not the disclosure proposal(s) could be incorporated into the IFRS Taxonomy;
 - (v) the interaction of the disclosure proposal(s) with existing common reporting practice, IFRS Standards and accompanying materials such as implementation guidance and illustrative examples;
 - (vi) whether any disclosure proposals were ‘technology neutral’; and
 - (vii) stakeholder feedback on all of the above
- 19 This involvement of the IFRS Taxonomy team would initially be tested as part of the Targeted Standards-level Review of Disclosures.

Selecting Standard(s) for Review

- 20 The IASB staff identified a shortlist of 9 IFRS Standards. Appendix 1 present an overview of the rationale for the selection. The IASB staff consulted on the shortlist with the GPF/CMAC at their June 2018 joint and will ask ASAF members for their views at the July meeting. GPF and CMAC members expressed different preferences for the selection among which IFRS 3 *Business Combinations*, IAS 19 *Employee Benefits* and IFRS 2 *Share-based payment* were the most mentioned IFRS Standards.
- 21 The IASB will select the Standards to be tested in July. The main objective is to select the IFRS Standards best suited to help developing the guidance. Improving existing disclosures in the selected Standard(s) is only a secondary objective.

EFRAG Secretariat preliminary views

- 22 Consistent with the views expressed in EFRAG’s Comment Letter in response to the IASB’s DP the EFRAG Secretariat agrees with the priority given to developing drafting guidance for the IASB and, first, testing it through a targeted Standards-level review of disclosure requirements.
- 23 The EFRAG Secretariat takes no issue with the proposed approach but recommends to further clarify the interactions of the 5-step approach with the overall due process set out in the IFRS handbook.
- 24 We consider in particular important that:
- (a) the IASB discusses relevant disclosure requirements at each stage of developing recognition and measurement proposals and does not leave consideration of disclosure only to the very end of a project;
 - (b) early liaison with stakeholders to help develop specific disclosure objectives or about its process; and
 - (c) a costs and benefits analysis is initiated early in the process.
- 25 Regarding the selection of one or two IFRS Standards for testing, EFRAG CFSS and TEG did not express strong views at their April 2018 meeting but some

members stressed that the choice was crucial for the test to be meaningful. One TEG member suggested starting with disclosure standards such as IFRS 7 *Financial Instruments: Disclosures* and/or IFRS 13 *Fair Value Measurement*

- 26 The EFRAG Secretariat also agrees that the first criterion for the selection should be the suitability for the testing exercise and not to identify the ‘most broken’ IFRS Standards’ to fix.
- 27 The following observations can also be made:
- (a) since IFRS 2 onwards, the IASB has been including objectives in its new IFRS Standards. It is advisable to select a recent one with objectives and an older one without;
 - (b) it is also advisable to consider including one disclosure only and one general IFRS Standard;
 - (c) for the sake of efficiency, the IASB could select Standard(s) on which the IASB has already open projects (such as IFRS 3 and IFRS 13). In this regard, we note that at the end of Post Implementation review on IFRS 13 the IASB tentatively decided that it would ‘feed the PIR findings regarding the usefulness of disclosures into the work on Better Communications in Financial Reporting project’.
 - (d) Lastly the EFRAG Pension Panel has recently discussed the disclosures required by IAS 19 and did not identify significant issues.
- 28 Lastly it is worth recalling the following publications made by EFRAG over the past years identifying improvements regarding disclosure requirements:
- (a) in its 2012 Discussion Paper ‘*Towards a Disclosure Framework for the Notes*’, EFRAG referred to the fact that information contained in the notes had expanded and the boundary between the primary financial statements and other information contained in annual reports had been blurred with one example commonly given being the ‘risk management’ disclosures in IFRS 7. That could be a reason for selecting IFRS 7 and also interesting because it specifically allows cross – references;
 - (b) in 2011, EFRAG and the UK standard setter, published the Discussion Paper ‘*Improving the Financial Reporting of Income Tax*’ calling in particular for improved disclosures on income taxes noting that, although IAS 12 *Income Taxes* required extensive disclosures, these tended to focus on accounting technicalities such as temporary differences and their accounting treatment rather than on aspects that were of real concern to users such as future tax cash-flows.
- 29 In addition to this issues paper, agenda papers for this session include paper 08-02 ASAF 03 Standards-level Review of Disclosures – July 2018.

Questions for EFRAG TEG-CFSS

- 30 Do EFRAG TEG-CFSS members have any suggestions about:
- (a) how the IASB can maximise the effectiveness of stakeholder liaison to help develop specific disclosure objectives; and
 - (b) the IASB’s process for developing and drafting disclosure objectives and requirements?
- 31 Which one or two Standard(s) from the shortlist in Appendix 1 would EFRAG TEG-CFSS members recommend selecting for Targeted Standards-level Review of Disclosures? And Why?

APPENDIX 1: High-level summary of feedback received by the IASB from stakeholders on disclosures issues for the shortlisted Standards

Category	Description	IFRS 2	IFRS 3	IFRS 8	IFRS 13	IAS 7	IAS 12	IAS 16	IAS 19	IAS 21
A	Issues related to disclosure objectives ²		✓		✓	✓				
B	Issues related to disclosure requirements									
B1	Duplicative				✓	✓			✓	
B2	Lengthy	✓	✓		✓				✓	
B3	Costly to produce		✓		✓					
B4	Not useful				✓	✓			✓	
B5	Incomplete	✓	✓	✓	✓		✓	✓	✓	
B6	Difficult to understand			✓	✓		✓		✓	
C	Issues related to communicating the disclosure requirements ³	✓	✓		✓	✓	✓			
D	Issues related to the adequacy of information provided in financial statements	✓	✓	✓	✓	✓	✓		✓	✓

² Most of the IAS Standards identified for consideration do not contain disclosure objectives (IAS 7 and IAS 19 only contain disclosure objectives for a specific aspect of their disclosure requirements). All the IFRS Standards identified for consideration do contain disclosure objectives.

³ Respondents to the Discussion Paper, including those that did not specify a particular Standard, generally identified prescriptive language *across the Standards* as a contributing factor to the disclosure problem.

Source: IASB