EFRAG FEEDBACK STATEMENT

IASB ED/2021/3 *DISCLOSURE REQUIREMENTS IN IFRS STANDARDS – A PILOT APPROACH (PROPOSED AMENDMENTS TO IFRS 13 AND IAS 19)*

DISCLOSURE INITIATIVE

March 2022

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on IASB ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach* ('the ED') on 27 January 2022. This feedback statement summarises the main comments received by EFRAG on its draft comment letter ('DCL') and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter.

IASB Exposure Draft

On 25 March 2021, the IASB published the ED which proposed a new approach for the IASB to develop disclosure requirements and test that approach by applying it to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee benefits*. The new approach would require entities to comply with:

- overall disclosure objectives that describe the overall information needs of users of financial statements; and
- specific disclosure objectives that describe the detailed information needs of users of financial statements.

The ED also identifies items of information to meet each specific disclosure objective. However, these items are generally not required and entities would need to apply judgement to determine the information they should disclose to satisfy the specific disclosure objective.

The ED was open for comments until 12 January 2022.

EFRAG's draft comment letter

EFRAG published its Draft Comment Letter ('DCL') on 11 May 2021 and was open for comments until 4 January 2022.

In its DCL, EFRAG welcomed the development of rigorous methodology to define objective-based disclosure requirements, with the same level of depth and scrutiny as requirements for recognition and measurement.

However, EFRAG noted that the proposed approach introduced a radical change from the existing guidance by making minimum requirements an exception. EFRAG was concerned that, absent a list of minimum disclosure requirements, the proposed approach would have exposed preparers to second guessing. Review of such disclosures and enforcement of the requirements would be more difficult for auditors and regulators and may ultimately not have led to the intended improvements to information relevance. Therefore, the success of the proposed approach depended on the IASB striking the correct balance between a tier of disclosures that were always required (that ensure a minimum level of comparability), and objectives to elicit additional entity-specific disclosures.

EFRAG recommended that a comprehensive outreach and field test of the proposals were undertaken to assess the operational challenges for preparers but also for enforcers and auditors.

Outreach activities

After the publication of its DCL, EFRAG carried out a programme of outreach events, a field test and stakeholder meetings in partnership with other organisations, including with the IASB.

EFRAG organised and participated in the following outreach events:

- *Targeted Disclosure: How would it work in practice? Blueprint for future IFRS Disclosures:* Online joint outreach event hosted by EFRAG and the IASB (30 June 2021). For more details, please click here.
- *Disclosure Requirements in IFRS Standards – Perspectives from Denmark:* Online joint outreach event hosted by EFRAG, Confederation of Danish Industry (DI), FSR – Danish Auditors and the IASB (5 October 2021). For more details, please click here.

- A joint outreach event held by ASCG in collaboration with EFRAG. (7 October 2021).
- *Targeted Disclosure: What we learned from the field test with European preparers:* Online joint outreach event hosted by EFRAG, BusinessEurope and the IASB (10 December 2021). For more details, please click here.

Field test

EFRAG, in close coordination with the IASB, conducted field test activities which involved a total of 22 entities. In EFRAG's view field test activities were essential for this project to understand the practical implications of the approach and concerns around comparability, auditability and enforceability.

The participants were asked to prepare mock-up disclosures by applying the proposed requirements and complete a questionnaire; or provide input only via the questionnaire or a structured interview. The large majority of participants agreed to prepare mock-up disclosures for one or both of the tested standards.

EFRAG organised the following workshops with fieldwork participants:

- *Field test Workshop on 5 November 2021 with preparers of financial statements – 5 corporates*.
- *Field test workshop on 10 November 2021 with preparers of financial statements – 4 corporates*.
- *Field test workshop on 15 November 2021 with preparers of financial statements – 6 financial institutions*.

Subsequently, workshops with users and auditors were held to discuss the field test results. The consolidated feedback obtained from the workshop participants (only preparers) as well as the additional input from all the other field test participants are summarised in the feedback statement (here). In addition, ESMA got direct access to the field test results from five field test participants and gave detailed feedback to EFRAG based on this field test results.

As most of the entities participating in the field test activities were large entities, EFRAG also issued a questionnaire aimed at small and medium entities, resulting in 45 participants. 76% of the respondents were small and medium sized entities applying IFRS and the rest were large entities.

A summary of the findings from the extensive outreach (including field test activities) conducted by EFRAG is provided in the Annex to its Final Comment Letter which form an integral part of EFRAG's response to the IASB.

Comment letters received from constituents

In addition to the outreach activities, EFRAG received 29 comment letters from constituents. These comment letters are available on the EFRAG website.

The comment letters were received from national standard setters, regulators, users' representatives, preparers and accounting and professional organisations.

Feedback received from constituents

In general, participants in outreach events and respondents to EFRAG DCL ('respondents') welcomed the IASB's ED and the IASB's efforts to improve financial statements and to address the disclosure problem.

Nonetheless, most of the respondents and participants in outreach events considered that there was still room to improve the IASB proposals. These stakeholders called for the IASB to further improve or discuss alternatives to its proposals.

Furthermore, respondents generally shared the tentative views expressed in EFRAG's DCL, supporting the objective of the project and the introduction of both overall and specific objectives.

However, it was generally considered that an objectives-based disclosure approach alone would not solve the disclosure problems as there are many factors contributing to the disclosure problem, including behavioural ones.

Respondents generally recommended an alternative approach combining overall and specific objectives with a list of mandated disclosures (subject to materiality).

IFRS 13

Respondents agreed in general with the proposed overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition and supported the specific disclosure objectives except those on alternative fair value measurements and the continued use of sensitivity analysis.

IAS 19

Respondents generally supported the overall disclosure objective and the specific disclosure objectives for Defined Benefit Plans (DBP) except for the objective relating to future payments to members of DBP that are closed to new members.

Respondents generally agreed that the proposed overall disclosure objective for Defined Contribution Plans (DCP) and other employee benefits would result in useful information. Some recommended to include specific requirements.

EFRAG's recommendation that sensitivity analysis should be required for significant assumptions of DBP was generally supported.

EFRAG's final comment letter

Considering the feedback received from respondents to EFRAG's DCL, participants in the outreach events and the field test, EFRAG reiterates its views and welcomes the development of a rigorous methodology to define objective-based disclosure requirements, with the same level of rigour and scrutiny as the requirements for recognition and measurement.

However, EFRAG still has concerns and believes that the proposals in the ED may not achieve their intended objective. The evidence obtained shows that developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items of information may likely:

- Be ineffective in addressing the disclosure problem nor result in providing more useful and relevant information and could even result in relevant information being omitted;
- Result in impairing comparability for users of financial statements by introducing a more flexible approach to disclosures;
- Increase enforcement and audit challenges; which in turn could result in preparers failing to provide relevant information and/or could result in the non-mandatory items of information being used as a checklist; and
- Be more costly for preparers and auditors, as it would increase reliance on materiality judgements.

EFRAG considers that the success of the proposed approach in addressing the disclosure problem 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.

EFRAG therefore suggests a less radical approach to address the disclosure problem, whereby the IASB would combine the introduction of overall and specific objectives with a list of items of disclosures always required (subject to materiality assessment) to meet those objectives. Required items of information would then be linked to one or more specific disclosure objectives. This would be complemented by application guidance describing users' needs and illustrative examples. The latter illustrating how to apply judgement to meet the objectives under various circumstances and supporting preparers, auditors and enforcers to develop a common understanding about the application of objectives-based disclosures.

EFRAG also encourages the IASB, in the next steps of the project, to continue engaging with stakeholders on a broad scale, including auditors and regulators. The discussion of this proposal has confirmed that the contribution of all is essential in order to successfully implement objective-based disclosures to address the disclosure problem.

EFRAG has also considered the application of the proposed approach to IAS 19 and IFRS 13.

Consistent with the suggestion to apply an alternative approach combining objectives and mandated disclosure items, EFRAG does not support finalising the amendments to IAS 19 and IFRS 13 as proposed. EFRAG suggests that the IASB first considers the feedback received in response to its proposed general approach.

If the IASB decided to follow EFRAG's suggestions on the general approach and decided to apply an alternative approach to IAS 19 and IFRS 13, another set of exposure drafts would be necessary to consult on the list of mandated disclosures and its interaction with the overall and specific objectives.

However, should the IASB decided to proceed with the ED proposals regarding the two Standards, EFRAG provides detail recommendations to the IAS 19 and IFRS 13 proposals in the FCL.

Contents

Detailed analysis of issues, comments received, and changes made to EFRAG's final comment letter

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Questions 1 & 2 *Using overall/specific disclosure objectives*

The ED proposes a new approach for the IASB to develop disclosure requirements in the future that would involve overall disclosure objectives, specific disclosure objectives and items of information.

In its DCL, EFRAG welcomed the development of a rigorous methodology to define disclosure requirements, with the same level of rigour and scrutiny as requirements for recognition and measurement. EFRAG agreed in particular, with the proposal to work more closely with users of financial statements and other stakeholders early in the standard-setting process. EFRAG supported the introduction of overall and specific objectives.

EFRAG also recommended that the IASB:

- Considers as a necessary preliminary step the clarification of the role of the notes to financial statements and the interactions of the proposals in the ED with the Primary Financial Statement project.
- Considers the interaction between the proposals in the ED and the developments in digital reporting.
- Explains whether and how the objectives serve the stewardship objective of financial reporting.
- Further considers and explains the relationship between the overall and specific disclosure objectives, and the concept of materiality.
- Considers existing disclosures objectives and requirements in other standards to avoid inconsistencies or redundancies.

Most respondents shared the tentative views expressed in EFRAG's draft comment letter supporting the objective of the project, the overall and specific disclosure objectives and the explanation why the information is relevant to users.

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received from the respondents, the field test and outreach activities, EFRAG decided to retain its initial position to support the introduction of overall and specific objectives and to reiterate the views expressed in the DCL.

However, EFRAG decided to give more prominence to the discussion on digital reporting to better explain, in particular how technology may alleviate the disclosure problem as new technologies may change the way information is produced and consumed.

Lastly, EFRAG also recommended that the IASB should consider the interactions between this ED and the Management Commentary ED as well as the inconsistencies that there might be between the projects.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
Some respondents assessed that the IASB should consider the interactions of this project with other IASB's projects like the Primary Financial Statements project. They also noted that the different approaches utilised for this project and for the Management Commentary ED to develop objectives-based disclosures were not helpful and could create confusion. One respondent highlighted some inconsistencies between both projects. Some respondents recommended like EFRAG a broader consideration of digitalisation of reporting in developing the proposals in the ED. Specifically, they noted that: • Digitalisation may help alleviate the disclosure problem. As digital users are able to navigate reports more easily, the "disclosure overload" becomes less problematic; • Comparable and standardised data sets are needed in a digital environment; • An increase in entity-specific information will likely result in companies using more extensions. It would need to be correctly anchored in a particular category and there is a risk that the context of that information may be lost; and • tagging in detail the notes will require additional extensions. The feedback gathered from EFRAG's outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.	

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Questions 3 *Increased application of judgement*

The approach suggested in the ED aims to shift the focus from applying disclosure requirements like a checklist to determining whether a specific disclosure objective has been satisfied. Using prescriptive language for objectives and less prescriptive language for items of information would help entities exercising judgement to identify which information is material and therefore has to be disclosed.

In the DCL, EFRAG observed some concerns regarding the exercise of judgment and, therefore, did not support the classification of certain disclosure requirements as non-mandatory; or making minimum requirements an exception as proposed and considered that the challenge is for the IASB to strike a right balance between a tier of always-required disclosures (that ensure a minimum level of comparability) and objectives to mandate additional entity-specific disclosures.

Most respondents recommended like EFRAG that the IASB considers an alternative approach combining overall and specific objectives with a list of mandated disclosures (subject to materiality).

One association representing preparers while supporting the introduction of overall and specific objectives, considered that the proposed approach in the ED removing disclosure requirements should only be applied to new or substantially modified IFRS Standards and not to existing ones. Otherwise, it would be difficult for preparers and auditors to ignore currently used checklists and start from a blank page.

Respondents generally expressed doubts that the proposed approach would help address the disclosure problem. They noted that the absence, in most cases, of a minimum set of mandatory requirements would lead to a significant judgement by preparers in determining which items of information are relevant to meet the needs of users of financial statements

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received from the respondents, the field test and outreach activities, EFRAG decided to reiterate that the proposed approach will likely create implementation challenges and tensions with comparability, auditability and enforceability.

Furthermore, EFRAG highlighted its alternative approach which is a less radical approach to address the disclosure problem whereby the IASB would combine the introduction of overall and specific objectives and the setting of mandated disclosures which would be always required (subject to materiality assessment) to meet the objectives. EFRAG also suggested additional application guidance describing users' needs (as proposed in the ED) and examples illustrating how to apply judgements to meet user needs in various circumstances.

EFRAG also encouraged the IASB to assess the effects of the various initiatives undertaken to foster the exercise of judgment in preparing financial statements and whether it had the expected effects in helping entities make materiality assessments in preparing the notes.

Lastly, EFRAG provided in its final comment letter a summary of the main findings identified during its extensive outreach activities as well as the costs associated with the proposals (detailed information is included in the Annex to the comment letter).

EFRAG did not suggest in its comment letter that the Materiality Practice Statement should be made mandatory to support the application of materiality assessment and help preparers apply materiality assessments to disclosure requirements. This is because in its response to the 2016 IASB consultation on the Materiality Practice Statement, EFRAG considered the guidance should remain non-mandatory as it would be difficult to enforce in certain jurisdictions and could possibly result in conflicts with other applicable regulations.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
and could also compromise comparability of information. In addition, it could create issues with auditability and enforceability. It was also noted that this suggested approach by EFRAG would help ensure comparability, facilitate digital reporting, ensure relevant disclosures even from less sophisticated preparers and alleviate potential disagreements between preparers and regulators as well as between preparers and auditors. One respondent suggested that the Materiality Practice Statement should be made mandatory to support the application of materiality assessment and help preparers apply materiality assessments to disclosure requirements. The feedback gathered from EFRAG's outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.	

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 4 *Describing items of information to promote the use of judgement*

Under the proposed approach in the ED, the IASB will identify items of information that an entity may, or in some cases, would be required to, disclose to meet each specific disclosure objective. The items of information are meant to help entities apply judgement and determine how to satisfy the specific disclosure objective.

In its DCL, EFRAG agreed that prescriptive language should be used for disclosure objectives. EFRAG also agreed that the proposed expression for item of information to consider in assessing how to meet the objectives ('while not mandatory the following information may enable') was self-explanatory.

However, EFRAG was concerned that if the objectives were not specific enough to be operational and enforceable, the expression 'while not mandatory' might be misunderstood and result in material information being omitted.

EFRAG also considered that the use of the proposed less prescriptive language may create enforceability and auditability issues that put more emphasis (and therefore burden) on the level of judgement for preparers. The proposed non-prescriptive language introduced a level of flexibility in disclosure requirements and may ultimately impair comparability.

As mentioned in the feedback to questions 3, most respondents supported using an approach that combines mandated items information and disclosure objectives.

Some of these respondents disagreed with the use of the proposed expression ('while not mandatory…') as it would not create the appropriate obligation on the preparers. They identified the same concerns mentioned above and cautioned that preparers may still use the items in these lists as a checklist and disclose more than it is needed.

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to revise its answer to:

- Express concerns about the use of the expression 'while not mandatory' as it would be challenging and create confusion for preparers, seems to introduce a level of flexibility in disclosure requirements that may ultimately impair comparability and may create tension with auditors and market regulators.
- State that, with the proposed expression and absent minimum disclosure requirements, preparers may be tempted to have two opposite attitudes towards the 'non-mandatory items of information:
  - either to ignore the non-mandatory list (as it is considered to be voluntary only disclosures) or,
  - conversely, to use it as a checklist to avoid any difficult discussion with auditors and enforcers.
- In both cases, this would reduce the relevance of the information provided and would not allow the ED to meet its stated objectives toward more relevant/ less irrelevant information in the notes.
- Instead, and consistent with EFRAG's recommendations that the IASB should maintain a list of required disclosures, EFRAG would suggest that the IASB uses the same language as in current IFRS Standards that is '(an entity) shall disclose…'.

EFRAG’s tentative views expressed in the draft comment letter and constituents’ comments	EFRAG’s response to constituents’ comments
The feedback gathered from EFRAG’s outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.	

Question 5 *Other comments*

Although no specific question was raised in the ED on the matter, EFRAG takes no issue with the methodology presented in the ED.

EFRAG supports the fact that the proposed approach will be both flexible (each step needs not be done in sequence) and iterative to adapt to different circumstances.

EFRAG however observed that the ‘disclosure problem’ is multifaceted and includes behavioural aspects and not all factors identified as contributing to the disclosure problem can be addressed by the IASB or the IASB alone. Encouraging behavioural changes is needed to improve communication effectiveness but it requires the involvement of other stakeholders to be effective.

Several respondents agreed with EFRAG that there were many factors contributing to the disclosure problem including behavioural ones.

A few respondents encouraged the IASB in the next steps of the project, to further engage with the preparer community, the audit profession and regulatory bodies to understand what else needs to be done within those stakeholder groups to ensure that all are ready, willing and able to take this big step forward.

EFRAG Final Position

Considering the feedback received, EFRAG decided to reiterate the views expressed in the DCL and add additional comments to its initial response.

EFRAG suggested that the IASB further clarifies the status of the proposed drafting guidance: where the methodology to develop disclosure requirements will be placed and whether it will be subject to future formal consultations.

Furthermore, EFRAG also encouraged the IASB to consider how its proposal could facilitate connectivity between financial and sustainability reporting.

The last addition was the suggestion that the IASB clarifies, where the assessment of the disclosure objectives leads to new disclosures being provided, that comparative information should be provided in the financial statements (unless impracticable).

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
Question 6 &7 *Overall/Specific disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition*	**EFRAG Final Position**
For assets and liabilities measured at fair value, the ED introduces an overall objective and four specific objectives which include the amount, nature and other characteristics of such assets and liabilities, the significant techniques and inputs used in determining fair value measurements, alternative fair value measurements using inputs that were reasonably possible at the reporting period end and the significant reasons for changes in the fair value measurements during the reporting period. In the DCL, EFRAG generally agreed with the proposed overall disclosure objective. However, the extent of the effects of the changes would also depend on the behaviour of the preparers and their appetite for a reduction of the information they provide. EFRAG also expressed support for the proposed objectives mentioned above except for alternative fair value measurements. EFRAG did not support the proposals to remove the requirement to provide sensitivity analyses and replace them with an objective to provide information about alternative fair value measurements. This was confirmed during the field test, almost all of the participants who prepared mock-up disclosures were still presenting the sensitivity analysis as under the current approach. In addition, EFRAG expressed concerned about the trade-off between costs and benefits for this specific objective. This was due to the increased burden on preparers, as the proposal refers to all items that are fair valued on a recurring basis. Most of the respondents shared the tentative views expressed in EFRAG's draft comment letter. Many respondents who agreed with the overall disclosure objectives and specific disclosure objectives except alternative fair value measurements had additional comments:	EFRAG agreed with the overall and specific objectives except alternative fair value measurements. EFRAG highlighted that the disagreement with this particular kind of information was a consequence of the lessons learned from the outreach and recommends continuing to use the sensitivity analysis. The field test results have provided evidence of the lack of clarity of the requirements of alternative fair values using reasonably possible assumptions as of the balance sheet date and that the sensitivities are the better way to provide information about measurement uncertainties in the entities individual circumstances. Considering the feedback received and the problems with the reference to the fair value hierarchy. EFRAG also proposed that if the IASB continues without reference to Level 3 of the hierarchy, it should clarify for which instruments further information should be provided. Depending on interpretation, this could be either those items on the border between Level 2 and 3 or also those subject to valuation adjustments.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
• The IASB's decision to avoid referring to levels of the fair value hierarchy was not welcome. During the field test, it created confusion as some participants found the requirements in the ED unclear on what to disclose on alternative fair values and fair value measurements other than those categorised within Level 3. • It was considered that it would be burdensome and costly to provide information about alternative fair value measurements for Level 2 assets and liabilities, as Level 2 items constitutes the largest group of assets and liabilities for financial institutions. This was also mentioned by the field test participants. • It was noted that alternative fair value measurements may undermine the confidence users have in the reported fair value and the related impact on the performance of the entity during the reporting period. • Clearer and more concise specific disclosure objectives were supported as the current proposals are too high-level and generic to be helpful. • It was suggested to encourage the IASB Board to provide more detailed and mandatory disclosure requirements. • It was also suggested to only apply the proposed approach to new or substantially modified IFRS Standards and not to existing ones. It would be difficult for preparers and auditors to ignore currently used checklist and start from a blank page. The feedback gathered from EFRAG's outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.	

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 8 *Information to meet the specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition*

The ED includes items of information that are always required to be disclosed to meet the stated objectives; and other items of information that, while not mandatory, may be considered in assessing how to meet the objectives.

For assets and liability measured at fair value, paragraphs 105, 109, 111 and 116 describe the items of information that are required. Paragraphs 106, 110, 113 and 117 describe various items of information that while not mandatory, could be considered in assessing whether the objective is met.

In the DCL, EFRAG agreed that entities should be required to disclose information listed above. However, as mentioned in its responses to the first questions on the overall approach proposed, EFRAG also questioned the likely effectiveness of non-mandatory information.

EFRAG agreed that 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. However, the level of judgement must not be so high that, if not properly exercised, it may impair the level of relevance, reliability and comparability of the information. Therefore, EFRAG recommended to the IASB to investigate further the practical application of the disclosure requirements and the effective applicability of such non-mandatory information.

Most respondents agreed like EFRAG that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 of the ED.

Respondents had problems with paragraph 113 for the reasons mentioned in Question 6 and 7 since it concerns alternative fair value measurements.

EFRAG's response to constituents' comments

EFRAG Final Position

After considering the feedback, EFRAG reiterated its agreement with the ED that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 of the ED.

Nonetheless, the following points were added. Regarding the suggested list of non-mandatory information, as mentioned in our responses to the first questions of the ED, EFRAG has concerns with the labelling of the information as non-mandatory and questions the likely effectiveness of non-mandatory information as well as the use of such language. EFRAG again references the proposed alternative approach.

Furthermore, EFRAG suggested that the IASB considers the feedback from its consultation and extensive outreach activities to identify which items of information should be added to the list of required information. The IASB can also consider the results of the survey conducted by EFRAG in the context of the 2017 Post-implementation review of IFRS 13 which identified the main items of information valued by users.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

The feedback gathered from EFRAG's outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.

EFRAG's response to constituents' comments

Question 9 *Specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes*

Paragraphs 118-119 of the ED state the specific disclosure objective. The information is intended to help users of financial statements assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy; and evaluate the effect of those measurements on the entity's financial position and financial performance.

In the DCL, EFRAG supported the proposals in the ED. In particular, EFRAG agreed that the most useful information about such items not measured at fair value, is information that enables users to understand the nature and characteristics of such items. Moreover, EFRAG also agreed that an entity does not need to explain the categorisation of each class of assets and liabilities.

Majority of respondents supported the specific disclosure objectives which aligned with EFRAG's view.

Many respondents did not agree with the proposed disclosure objective. They stated that the disclosures will have a limited information/forecast value especially for non-financial entities, and that the purpose of the information for users as noted in para. 119 as well as the specific disclosure objective would not be clear and explicit enough to be helpful for application. Other arguments were that:

- the disclosure objective is too burdensome;

EFRAG Final Position

Considering the feedback received, EFRAG decided to maintain its initial position. EFRAG noted the reservations from some constituents about the value relevance about the fair value of assets and liabilities not carried at fair value as these are classified based on continued use rather than an intention to sell (where fair value would be indicative for the value).

EFRAG is of the opinion that the information provided by the fair value disclosures has value for the users, because there was also no indication during the PIR to the contrary, nor during the outreach and field test done in this consultation. Therefore, reconsidering the need for such disclosure would not be within the remit of the ED.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	**EFRAG's response to constituents' comments**
• there is the risk of duplicating the information required by IFRS 7 *Financial Instruments: Disclosures*, but this could be mitigated by the option to cross reference, and • if it was concluded in the standard that amortised cost is the most relevant measurement method providing another value based on a different measurement in the notes may undermine the measurement approach used for the primary financial statements.	
Question 10 *Information to meet the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes*	**EFRAG Final Position**
As noted in question 9, the ED proposes one single specific disclosure objective for items not measured at fair value but for which fair value is disclosed in the notes which is similar to one of the four specific objectives described for asset and liability measured at fair value. In the DCL, EFRAG agreed with the proposed requirement to disclose the fair value measurements for each class of assets and liabilities at the end of the reporting period by level of the fair value hierarchy in which those measurements are categorised in their entirety. EFRAG agreed that a description of the nature, risks and other characteristics of these classes of assets and liabilities can be provided by cross-reference to where that information is disclosed elsewhere in the financial statements. Majority of the respondents supported EFRAG's view in the DCL. However, many respondents disagreed with the items of information to meet the specific disclosure objective for such assets and liabilities not measured at fair value. The respondents provided the same reasoning for the disagreement as in Question 9.	Considering the feedback received, EFRAG decided to maintain its initial position. Some respondents have provided their views about which items of information should be mandated and which items should be retained as non-mandatory. The EFRAG Secretariat suggested not differentiating between the items that should be mandatory and those that should not, apart from a few exceptions.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	**EFRAG's response to constituents' comments**

Question 11 *Other comments on proposed amendments to IFRS 13*

Although no questions were raised in the ED on the matter, EFRAG expressed concerns about the transition requirements that would apply if the proposed amendments were to be finalised.

EFRAG considered that the application of a brand-new approach for disclosure requirements will be more challenging for 'legacy' standards like IFRS 13. Therefore, EFRAG suggested that the proposals on IFRS 13 be subjected to an extensive field test.

EFRAG also suggested that the IASB could clarify, where the assessment of the disclosure objectives leads to new disclosures being provided, whether comparative information should be provided in the financial statements.

Some respondents generally questioned IFRS 13 as a good example for the pilot activity:

- As such a standard would be complex and relatively new. In practice, relevant stakeholders have found a balance in interpretation and application of this Standard.
- Since the PIR concluded that IFRS 13 was fit for purpose.
- As it would have been more helpful to apply the proposed drafting guidance to other IFRS Standards such as IFRS 7.

Clarification is needed regarding the Illustrative Examples especially example 15, as example 15 was not clear and would not support the entities in making its judgement regarding paragraph 105 of the ED.

There was disagreement regarding the proposed amendments to paragraph 16A(j) of IAS 34 *Interim Financial Reporting*, because of the cost-benefit balance of this approach for non-financial entities.

Respondents agreed with EFRAG's concerns regarding a sufficient transition period to deal with potential new disclosure requirements.

EFRAG Final Position

After considering the feedback received, EFRAG reiterated the views expressed in the DCL. Nonetheless, EFRAG decided to add to its initial response as some of the constituents questioned the cost-benefit balance regarding the consequential amendments to the interim reporting standard, IAS 34. Furthermore, EFRAG's view is that some entities are likely to incur significant costs in the first year, and these are likely to persist for future reporting periods.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 12 & 13 *Overall/Specific disclosure objective for defined benefit plans*

The ED introduces an overall disclosure objective for defined benefits plans (DBP) to provide information that enables users of financial information to assess the effect of defined benefit plans on the primary financial statements and evaluate its risks and uncertainties. The ED also introduces specific disclosure objectives for DBP that entities are required to disclose.

In the DCL, EFRAG generally agreed with the proposed overall disclosure objective for defined benefit plans. EFRAG also agreed that the proposed specific disclosure objective capture the correct aspects needed by users. However, EFRAG shared the concern that the objective relating to the risks and the nature of the benefits of pension plans need to be more precise.

Many respondents agreed that the overall disclosure objective for DBP would result in the provision of useful information. A few respondents noted that the proposed overall disclosure objective is very similar to the current requirement included in paragraph 135 of IAS 19. They considered this to be surprising as according to the ED (BC105), stakeholders told the IASB that IAS 19 disclosures often do not meet the information needs of users of financial statements.

A few respondents noted that the examples of features an entity could use to disaggregate information included in the ED are in substance already included in IAS 19. Therefore, they questioned whether the revised guidance would enable entities to better aggregate and disaggregate defined benefit disclosures.

Respondents generally supported the specific disclosure objectives for DBP identified in the ED.

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to continue to support the proposed overall and specific objectives for defined benefit plans except for the specific disclosure objectives regarding future payments to members of defined benefit plans that are closed to new members.

EFRAG suggested that the IASB should combine the specific disclosure objective of future payments to members of defined benefit plans that are closed to new members with the more general objective of expected future cash flows relating to defined benefit plans. EFRAG included in the letter some of the arguments provided by respondents and field test participants against this objective.

EFRAG also reiterated its initial view that an appropriate level of aggregation/disaggregation of pension plans is crucial to provide meaningful information. In this regard, EFRAG acknowledged in the letter that the examples of features an entity could use to disaggregate information included in the ED are in substance already included in IAS 19. Therefore, EFRAG recommended that the IASB should clarify in which situations the level of aggregation of DBP has been perceived as inappropriate by users and provide further guidance on how these issues should be resolved.

Furthermore, EFRAG decided to highlight the most relevant aspects identified during the field test of the IAS 19 proposals:

- The proposed overall and the other specific objectives were generally understandable and could be operationalised;
- The application of the objectives resulted generally in limited changes to the previously disclosed information;
- Preparers were generally able to link most of their current disclosures to the proposed objectives; and

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

However, some respondents did not support the specific disclosure objective relating to future payments to members of defined benefit plans that are closed to new members. Some of the reasons provided are as follows:

- Users' information needs are very similar to plans that remains open to new members;
- The information that would satisfy this disclosure objective will not be relevant if it is not complemented with other informational elements;
- Paragraph 147C(b) of the ED already provide sufficient information for an entity to disaggregate, if material, information on DBP that are closed to new members; and
- This specific disclosure objective is too 'UK-specific'.

These respondents recommended that the IASB should combine this specific disclosure objective with the (more general) specific disclosure objective for "expected future cash flows relating to defined benefit plans".

A few respondents recommended that the IASB clarify the notion of future "contributions to the plan" as it comprises both expected future contributions to the plan and expected future benefit payments, directly by the entity to plan participants. The IASB should also clarify that to achieve the proposed specific disclosure objective, an entity shall disclose information about both.

The feedback gathered from EFRAG's outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.

EFRAG's response to constituents' comments

- Preparers were uncertain about how to document their judgements and the reactions of auditors and enforcers.

Considering the feedback received from constituents and field-work participants, EFRAG also suggested that the IASB should clarify that the notion of future "contributions to the plan". EFRAG pointed out that to achieve the proposed specific disclosure objective, an entity shall disclose information about both the expected future contributions to the plan and the expected future benefit payments to plan participants.

Finally, as most of the field test participants did not identify major difficulties in understanding the specific disclosure objective that require entities to disclose the nature of benefits and risks of DBP, EFRAG decided to remove its initial suggestion to tailor the objective.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 14 *Information to meet the specific disclosure objectives for defined benefit plans*

The ED generally describes proposed items of information that while not mandatory may enable entities to meet each of the stated specific disclosure objective (Paragraphs 147I, 147L, 147P, 147S and 147W). The ED also describes some limited requirements that are considered to be always necessary to meet the stated objectives (147F and 147V).

In its DCL, EFRAG agreed that the information included in paragraph 147F and 147V would always be necessary to meet the specific disclosure objective.

EFRAG's view was that the relevance of the expected cash flow effects of defined benefit obligation recognised at the end of the reporting period depends on the specific situations and characteristics of the pension plans.

With respect to information about actuarial assumptions, EFRAG was concerned that entities either continue with their current disclosures or provide immaterial information about assumptions. This may affect the relevance of the information provided as well as the comparability across entities.

Lastly, EFRAG considered that the sensitivity analysis to significant actuarial assumptions should be regarded as mandatory.

A majority of respondents explicitly agreed that the items of information listed in paragraph 147F should be regarded as mandatory. However, a few of them did not support the item in paragraph 147F(d) relating to the DTA/DTL arising from DBP.

Many respondents also agreed that the items of information listed in paragraph 147V should be regarded as mandatory. However, a few of them suggested that the IASB should require a separate reconciliation for the plan assets, the defined benefit obligation and the asset ceiling instead of a gross reconciliation for the net defined benefit liability.

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to maintain its initial position on the items of information considered to be always necessary to meet the specific disclosure objective objectives. However, EFRAG decided to support a separate reconciliation instead of a gross reconciliation for the net defined benefit liability.

EFRAG also decided to retain its recommendation to mandate disclosures on sensitivity analysis of significant actuarial assumptions.

Based on the feedback received from constituents, EFRAG decided to incorporate the following suggestions:

- To mandate the item of information included in paragraph 147S(a) of the ED (significant actuarial assumptions);
- To extend the non-mandatory item of information included in paragraph 147P(a) of the ED (weighted average duration of DBO) to pension plans that are open to new members;

Lastly, consistent with EFRAG's response to Question 3 and its support for an alternative approach, EFRAG suggested that the IASB should expand the list of items of information that would always be required to meet the disclosure objectives (subject to that information being material to the entity).

In relation to the items of information that should be considered as mandatory, EFRAG noted that the joint field test activities conducted by EFRAG and the IASB has provided evidence that most of the information previously provided by preparers was identified as useful to meet the proposed objectives. Thus, it suggested that the IASB could use that feedback to identify which items of information to mandate.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

A few respondents questioned the IASB's tentative decision to allow entities to disclose the expected future cash flow for the defined benefit plan as a whole (full cash flows). Conversely, a few others considered this information to be useful.

A few respondents also considered that the IASB should reconsider its tentative decision not to specify a (minimum) period over which an entity should provide information about the expected future cash flow effects of a DBP.

A few respondents shared the view that the weighted average duration of DBO (147P(a)) should be required to disclose regardless of whether or not a defined benefit plan is closed to new members or remains open to new members.

Many respondents considered that the IASB should require a sensitivity analysis disclosure for each significant actuarial assumption.

Some respondents considered that the following non-mandatory items of information should not be disclosed:

- reasonably possible alternative actuarial assumptions as it undermines the fair value concept and it is unclear how to provide these in practice.
- expected return on the plan assets contained in 147V (h) due to the difficulty of predicting it and the uncertainty involved in its estimation.

However, these items were considered to be useful by some users. Apart from this, the feedback gathered from EFRAG's outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.

EFRAG's response to constituents' comments

As entities did not share concerns during field test activities, EFRAG decided not to include the concerns raised by a few respondents relating to the DTA/DTL arising from DBP.

Furthermore, EFRAG did not acknowledge in its comment letter the concerns expressed by some respondents on specific non-mandatory items of information. The reason why EFRAG did not include these concerns in its comment letter is that some users considered this information to be useful and that these items of information are not mandatory. Therefore, entities could use alternative items of information to satisfy specific disclosure objectives.

EFRAG's view was that the relevance of information of future cash flows depends on the characteristics of the pension plans. Thus, for some pension plans this information might be not relevant or might be difficult to obtain and highly influenced by management predictions. In this regard, EFRAG decided not to suggest that the IASB should specify a minimum period over which an entity should provide information about the expected future cash flow. The reason is mainly that the amendments do not require this quantitative information but allow entities to provide alternative items of information that would satisfy the specific disclosure objective.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	**EFRAG's response to constituents' comments**
Question 15 ***Overall disclosure objective for defined contribution plans***	**EFRAG Final Position**
The ED proposes to introduce an overall disclosure objective for defined contribution plans (DCP) which requires disclosing information that enables users to understand the effects of these plans on the entity's financial performance and cash flows. In its DCL, EFRAG agreed that the proposed overall disclosure objective would result in the provision of useful information. However, EFRAG observed that with only the overall objective there might be potential risks of DCP that are not captured or sufficiently disclosed. A majority of respondents agreed that the proposed overall disclosure objective would result in useful information that meets the overall user information needs about defined contribution plans. However, a few respondents noted that the overall disclosure objective for DCP is too generic. They recommended that the IASB could include some specific items that an entity must disclose to meet the disclosure objective. A few respondents also suggested that the IASB should include a reference to the disclosure requirements in IAS 24 about employee benefits for key management personnel. This was also suggested for question 17 with regard to other employee benefits. The feedback gathered from EFRAG's outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.	Considering the feedback received, EFRAG decided to maintain its initial position. Nonetheless, EFRAG decided to emphasise that the IASB should include specific items that capture the potential risks of defined contribution plans. EFRAG also decided to recommend that the IASB includes a reference to the disclosure requirements in IAS 24 about employee benefits for key management personnel as IAS 19 currently does. This was also suggested in the response to question 17 of the ED about other employee benefits.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
Question 16 & 17 *Disclosures for multi-employer plans, defined benefit plans that share risks between entities under common control and for other types of employee benefit plans*	**EFRAG Final Position**
The ED describes the requirements for multi-employer plans and DBP that share risks between entities under common control. Depending on their features and how they are accounted for, these plans would need to meet the overall disclosure requirements for DBP or DCP and one or all of the specific disclosure requirements for DBP. The ED also proposes some specific non-mandatory items of information for these type of pension plans. For other types of employee benefit plans (which include short-term employee benefits, other long-term employee benefits and termination benefits), the ED proposes an overall disclosure objective. In its DCL EFRAG generally agreed with the IASB's proposals. Many respondents generally or partially supported the IASB's proposal regarding multi-employer plans and defined benefit plans that share risks between entities under common control. Many respondents also agreed with the IASB's proposal regarding other types of employee benefit plans. Based on the information included in the basis for conclusion, a few respondents questioned whether the introduction of an overall disclosure objective is justified for other types of employee benefit. They suggested different alternatives such as: • An overall objective embracing all other employee benefits and specific objectives for specific plan types if needed; • Direct requirements to disclose particular items of information instead of an overall disclosure objective; • More specific guidance; and • Not requiring specific disclosures at all (to increase an entity's flexibility).	Considering the feedback received, EFRAG decided to maintain its initial position.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

Question 18 *Other comments on the proposed amendments to IAS 19*

EFRAG shared the view that transition requirements and the need for comparative information should be further investigated by the IASB.

EFRAG also noted that, in recent years, DBP have lost prominence while other plans such as defined contribution plans or other types of plans such as hybrid plans, in which a minimum return is guaranteed, are becoming more and more common. Thus, EFRAG suggested that the IASB assesses whether specific disclosures on emerging pension plans such as hybrid plans should be included.

A few respondents pointed out that employee plans have evolved and share characteristics beyond the types classified in IAS 19. Thus, a fundamental review of IAS 19 is necessary. This is also an area of interconnectivity between financial and sustainability reporting.

One respondent noted that an adequate medium-term implementation timeframe should be defined, should the IASB decided to move forward with the proposals.

One respondent pointed out that for hybrid plans there should be no special disclosure objectives at this stage. In their opinion, prior to the drafting of any disclosure objectives the issue about how such plans could be more appropriately measured should first be addressed.

The feedback gathered from EFRAG's outreach events and field test activities (here) is consistent with the summary of feedback from comment letters included above.

EFRAG's response to constituents' comments

EFRAG Final Position

Considering the feedback received, EFRAG decided to maintain its initial position, except for the suggestion that the IASB should assess whether specific disclosures on hybrid plans should be included. Furthermore, EFRAG decided to emphasise that an adequate implementation timeframe should be defined (should the IASB moved forward with the proposals).

As EFRAG's constituents supported other projects during the EFRAG's consultation on the IASB's third agenda consultation request for information, EFRAG decided not to recommend a fundamental review of IAS 19.

EFRAG encouraged the IASB to consider the connectivity between financial and sustainability reporting on any future standard setting in its comment letter in response to question 5 of the ED.

Appendix 1: List of respondents

Name of constituent	*Country*	*Type / Category*
Accountancy Europe (AE)	Europe	Professional organisation
Dutch Accounting Standard Board (DASB)	The Netherlands	National Standard Setter
Swedish Financial Reporting Board (SFRB)	Sweden	Preparer organisation
Swedish Enterprise Accounting Group (SEAG)	Sweden	Preparer organisation
Infineon AG	Germany	Preparer
Swedish Institute of Accountancy (FAR)	Sweden	Professional organisation
EDF	France	Preparer
Danish Accounting Standards Committee (DASC)	Denmark	National Standard Setter
German Insurance Association (GDV)	Germany	Preparer organisation
Erste Group	Austria	Preparer
European Securities and Markets Authority (ESMA)	Europe	Regulator
The European Savings and Retail Banking Group (ESBG)	Europe	Preparer organisation
German Institute of Pension Act (IVS)	Germany	Professional organisation
BusinessEurope	Europe	Preparer organisation
Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
PensionsEurope	Europe	Professional organisation
Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
L'Autorité des normes comptables (ANC)	France	National Standard Setter
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
Corporate Reporting Users' Forum (CRUF)	UK	User organisation
European Accounting Association (EAA)	Europe	Academic Association
SAP	Germany	Preparer
Commerzbank AG	Germany	Preparer
Siemens AG	Germany	Preparer
Association of Chartered Certified Accountants (ACCA)	Global	Professional organisation
Société Générale	France	Preparer
German Banking Industry Committee (GBIC)	Germany	Preparer organisation
ACTEO – AFEP - MEDEF	France	Preparer organisations
BNP Paribas	France	Preparer