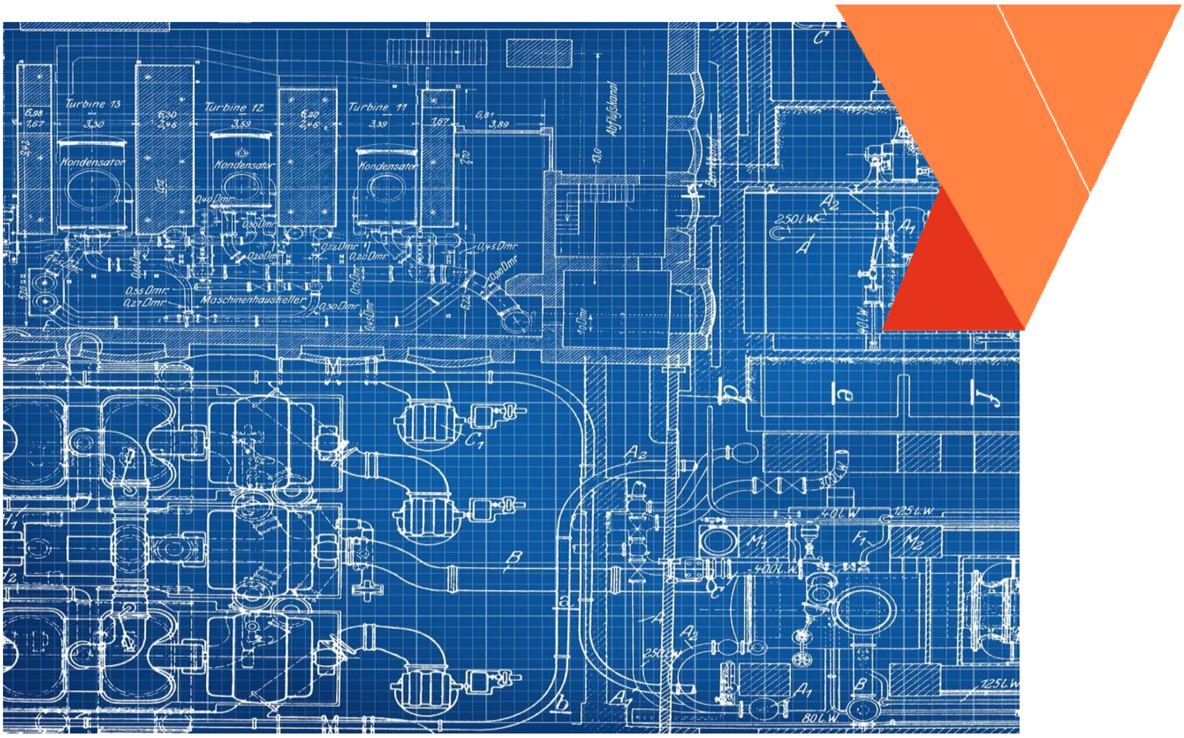
TARGETED DISCLOSURE:

WHAT WE LEARNT FROM THE FIELD TEST WITH EUROPEAN PREPARERS

SUMMARY REPORT

10 DECEMBER 2021



EFRAG
European Financial Reporting Advisory Group

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This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event.

Background

EFRAG, BusinessEurope and the IASB organised a joint outreach 'Future of IFRS disclosure requirements: What we learnt from the field test with European preparers' on 10 December 2021. The aim of the online outreach event was to present the results of the field tests conducted by EFRAG and IASB on the IASB Exposure Draft *Disclosure Requirements in IFRS Standards - A Pilot Approach* (the 'ED') to allow some entities to share their fieldwork experience as well as the positive aspects and concerns around the approach, as well as to discuss the auditability and usefulness of the proposed approach, and to receive input from constituents and panellists. This report has been prepared for the convenience of European constituents to summarise the event. It will be further considered by the involved organisations in their respective due process on the IASB exposure draft.

The programme of the event can be found here. The biographies of the speakers and panellists can be found here. Finally, the slide deck used during the event is available here.

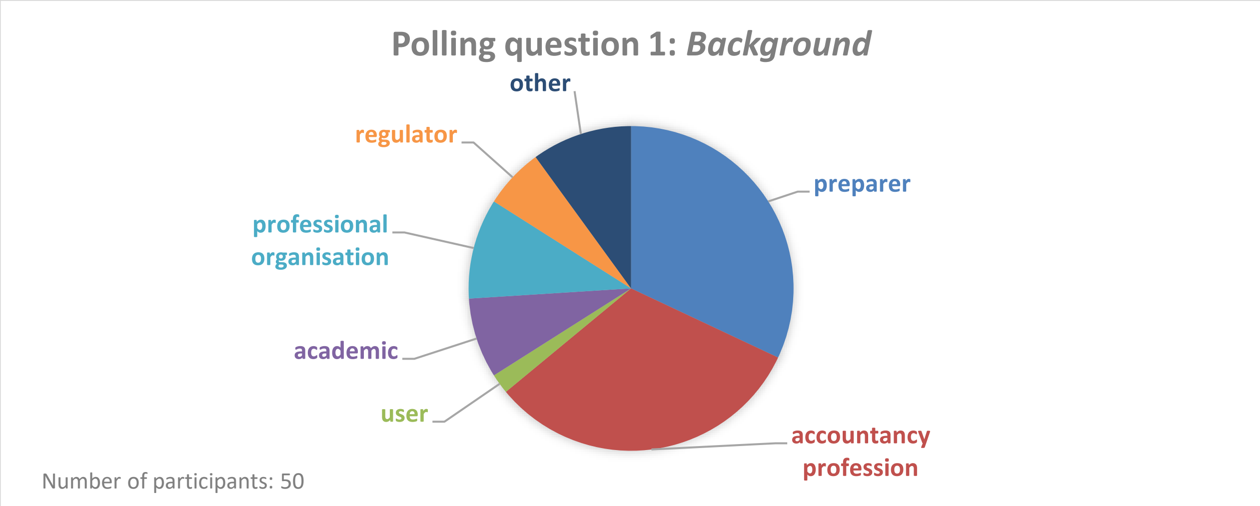
For each of the topics discussed during the event, the IASB representatives introduced the proposals, the EFRAG representatives presented EFRAG preliminary position, and a panel discussion took place. The audience provided their views on the proposals through online polling surveys and questions to the speakers.

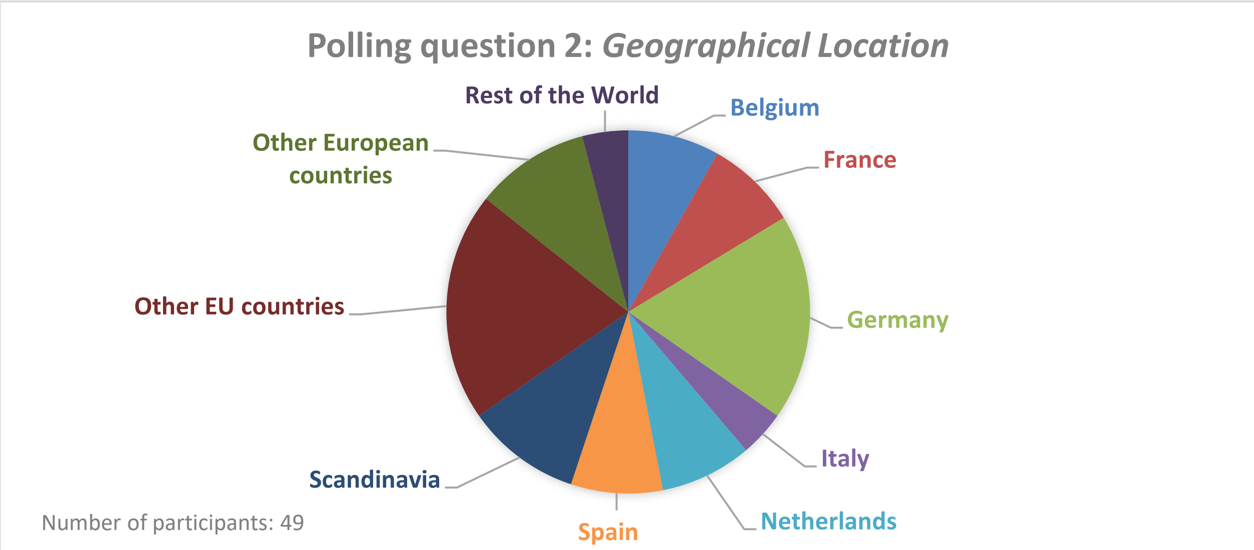
Welcome

Chiara del Prete, EFRAG TEG Chairwoman, welcomed all the participants and panellists to the webinar. She extended a special word of welcome to the IASB Staff and the panellists.

Betrand Perrin, IASB Board member, welcomed all the participants and panellists to the webinar and thanked EFRAG for assisting with the outreach programme.

Claes Norberg, Chair of the BusinessEurope Accounting Harmonisation Working Group and Sounding Board and moderator of the event, introduced the presenters and the panellists. He also launched the first polling questions asking about the background of the audience.





General approach

1. Objectives of the field test activities

Kathryn Donkersley, IASB Technical Staff, outlined that the IASB is proposing a whole new approach to disclosure requirements - and the consequences of that approach - if it is rolled out broadly, would be to require reporting entities, auditors, and regulators to do things differently. To test the new approach, the IASB has proposed changes to two Standards. So, the three big aspects of the ED were the new approach proposed for disclosure requirements, the testing of the approach on IFRS 13 *Fair Value Measurement* and the testing of the approach on IAS 19 *Employee Benefits*. She noted that the objectives of the field test were to collect evidence as to whether the proposals were clear and operational, how they were implemented in practice and the practical effects such as system changes or implementation costs. Once completed, the total number of global fieldwork participants would be around 50, covering a wide range of jurisdictions and industries.

Kathrin Schöne, EFRAG project director, provided some details of the European entities taking part in the field test activities. She emphasised that 22 European companies had agreed to prepare mock-up disclosure or provide more limited input (questionnaire or interview) for IFRS 13 and/or IAS 19. EFRAG and the IASB had conducted 3 workshops with 15 participants to discuss in detail the field test result. Based on the field test result, separate workshops with auditors and users had been held. A report on smaller entities' responses (survey as well as interviews with auditors of smaller entities) would be published[1] the following week as part of the EFRAG TEG papers.

2. Discussion

Topic 1: Proposed internal guidelines to the standard setting of disclosure requirements in individual Standards (proposed Guidance for the IASB).

Kathryn Donkersley explained the characteristics of the proposed approach. She noted that this approach was developed as a result of the feedback provided by many stakeholders about why current disclosures are not as useful as they may be and the request that the IASB develops an approach that would help entities to address the identified issues. She explained that, in practice, the disclosure requirements are sometimes applied as if they were a checklist though this is not the way they are intended to work since IAS 1 requires entities to apply materiality throughout the IFRS standards. She also noted that stakeholders do not always understand why users need some specific information. Thus, the proposed approach aims to explain users' needs and what they want to do with the information provided. She highlighted that the IASB does not expect the entities to talk to their own users and identify disclosures that would satisfy them as it is the IASB's task to identify widespread users' information needs.

With regard to the result of the field test activities, she stated that everyone that is participating in the fieldwork likes the disclosure objectives because they provide a good understanding of what users want and why. She stated that there are mixed views on the level of prescriptiveness of the items of information that would satisfy the objectives. Some participants were in favour of the ED's approach as they thought that it would provide more useful information. Some other companies were concerned of losing some prescriptive requirements. These companies were concerned about matters such as audit and questioned whether it would be possible to apply the level of judgment that the ED requires.

Kathrin Schöne highlighted the key themes identified in the field test activities, as described in the event slides.

[1] The paper on the survey can be found here and the paper on the interviews with auditors, here.

What was your general experience around the ED? Were the proposed objectives helpful when preparing the disclosures under the new approach? Were the requirements understandable?

Pierre-Henri Damotte, Head of Accounting Public Affairs at Société Générale, welcomed the introduction of disclosure objectives as they provide useful information for preparers about users' needs. They help both in understanding what is needed and in choosing what additional information would be useful for the correct understanding of the financial performance and the financial situation of an entity. He pointed out that they had had high expectations on the project since it aimed at improving the effectiveness and usefulness of financial statements. However, he noted that they were disappointed with the ED because with the exception of the few new items of information, the remaining ED provisions led to similar disclosures that were currently disclosed. He said that, based on Société Générale group circumstances, all non-mandatory items of information proposed for IFRS 13 would become mandatory, converting the new approach into a checklist approach. Furthermore, he explained that there was not a strong appetite from auditors to turn to this more judgemental approach. Thus, they are not encouraged to do so.

Martin Svitek, Senior IFRS expert at Group Accounting department of Erste Group, also welcomed the objective-based approach. He shared the view that the preparation of the IFRS 13 mock-up disclosures was not so burdensome because the ED non-mandatory items of information largely overlap existing disclosures requirements. With regard to quantitative disclosures, Erste Group did not identify changes to the current practice, but the exercise brought significant improvements in the way the information was presented. He emphasised that the exercise helped to improve the current annual report by restructuring the information and focusing on the objectives.

Maren Pollmann-Klein, Senior Vice President Corporate Accounting Principles & Standards at Deutsche Post DHL Group, noted that they had the opportunity to have together with their pension and valuation experts a fresh look at the notes relating to the tested standards. She expressed support for the IASB's intention to reduce disclosure overload and solve the disclosure problem. The objective to provide more entity-specific disclosures was also welcomed. However, when trying to apply the new requirements, they realised that there were no changes to what was currently disclosed as Deutsche Post DHL Group was already applying the materiality concept. In her view, based on the result of the field test, it was doubtful as to whether the proposed approach would solve the so-called disclosure problem.

Lars Hamers, Technical Accounting and Reporting Expert at Royal DSM, commented that moving from prescriptive to descriptive disclosure requirements was welcomed. Nevertheless, they ended up having similar disclosures to those that they were currently providing as they had already applied materiality judgement and had tried to remove immaterial information.

What areas did you find the most challenging when applying the new approach?

Martin Svitek did not find applying the new approach particularly challenging as the ED's non-mandatory items of information largely overlaps with the existing IFRS 13 disclosure requirements. In the context that the new approach was largely focused on users' needs, he mentioned that Erste's IFRS 13 note had not been challenged or questioned by users. In his view, the principle-based environment was a much better environment in which to add or reduce disclosures even though there were not many changes to the existing fair value note. Based on the proposed guidance, he highlighted the difficulty in deciding whether the alternative fair value measurement disclosures would also be relevant for Level 2 financial instruments though they finally decided to provide these disclosures only on Level 3 financial instruments. He opined that all stakeholders would have to learn how to work in this new environment, and therefore some guidance from the IASB on how to apply the materiality judgement would be helpful.

Maren Pollmann-Klein expected that the new approach would lead to more documentation requirements as well as discussions with auditors and enforcers at each balance sheet date.

Lars Hamers said that the objective and scope of the ED were very clear. The main challenge was how the disclosures would change as a result of applying the proposed approach; there seemed to be only very limited changes.

Will the non-mandatory items become the new checklist for the preparer?

Lars Hamers noted that if they were to apply the new approach then there was the potential issue of whether the auditors would use those non-mandatory items of information as a kind of checklist despite these being specified as non-mandatory.

Maren Pollmann-Klein agreed that there was a risk that the non-mandatory disclosures included in peers' annual reports would be provided by entities to avoid discussions with auditors, leading therefore to the introduction of irrelevant disclosures in notes. It would become a checklist approach in practice.

Martin Svitek concurred that once auditors identified specific examples of disclosures they would be included in the checklist. However, given the overlap between the existing and proposed requirements, it would not be a challenge. It may be challenging if entities decided to remove some disclosures.

Pierre-Henri Damotte highlighted that the ED contains some confusing wording that led to the consideration of non-mandatory items as an additional checklist. Paragraphs 103 and 106 of the amendments to IFRS 13 would be an example. Third parties will strongly suggest that those items should be disclosed and if not disclosed, entities will need to justify it.

What are the audit impacts of the proposed approach?

Silvie Koppes EFRAG TEG member and auditor at KPMG, relayed her understanding that many preparers like using a checklist as a starting point to assess which disclosures should be provided and that many users like using these as well, when they are analysing disclosures. In her view a checklist itself is not a negative concept. What is important is how materiality is applied to this list by preparers, auditors and others.

She expressed the concern that the proposed approach may introduce additional judgment on the application of materiality on disclosures and a higher burden on preparers because of the need to decide what non-mandatory disclosures would satisfy a specific disclosure objective. The impact of this approach on auditors will depend on how robust the materiality assessment made by preparers are. She thought that in the first year of adoption more effort would likely be required from preparers as well as auditors in terms of assessing the materiality. Some specific guidance on the application of materiality in the context of disclosures would be very helpful.

Usefulness of the approach from a user perspective

Kazim Razvi, Independent Analyst, noted that investors' needs will not be understood at preparers' level as investors are a very diverse group. In addition, preparers would interpret the disclosure objectives from their subjective perspective which will eventually impair comparability.

Therefore, he supported a minimum list of prescriptive disclosures for comparability purposes. He supported the disclosure objectives as these will provide background to the information needs of users and will help improve overall disclosures. Going forward, he expects a dynamic approach where voluntary useful disclosures would be added, and redundant mandatory disclosures would be removed from the minimum list of disclosures - this will be very helpful to users. In his opinion, the minimum disclosures provide a floor of consistent and comparable information. In contrast, the disclosure objectives provide room and guidance to provide additional decision-useful information due to changing internal and external factors.

He raised concerns that comparability would be difficult to maintain under the proposed approach. Preparers could get influenced based on their feedback from investors and it would be very challenging for auditors and regulators to review and enforce a consistent approach.

Comparability as a concern

Regarding comparability, **Silvie Koppes** noted that the proposals had the potential to hinder comparability, given the variation in judgements made by different preparers. The primary focus of auditors was on materiality and whether the disclosed information was complete and accurate. An auditor would prefer comparable information between entities and over time. However, it was unlikely that an auditor would raise a disclosure difference if an entity’s disclosure was not consistent with peers’ disclosure.

Impact of the proposed approach on the costs/benefits equilibrium

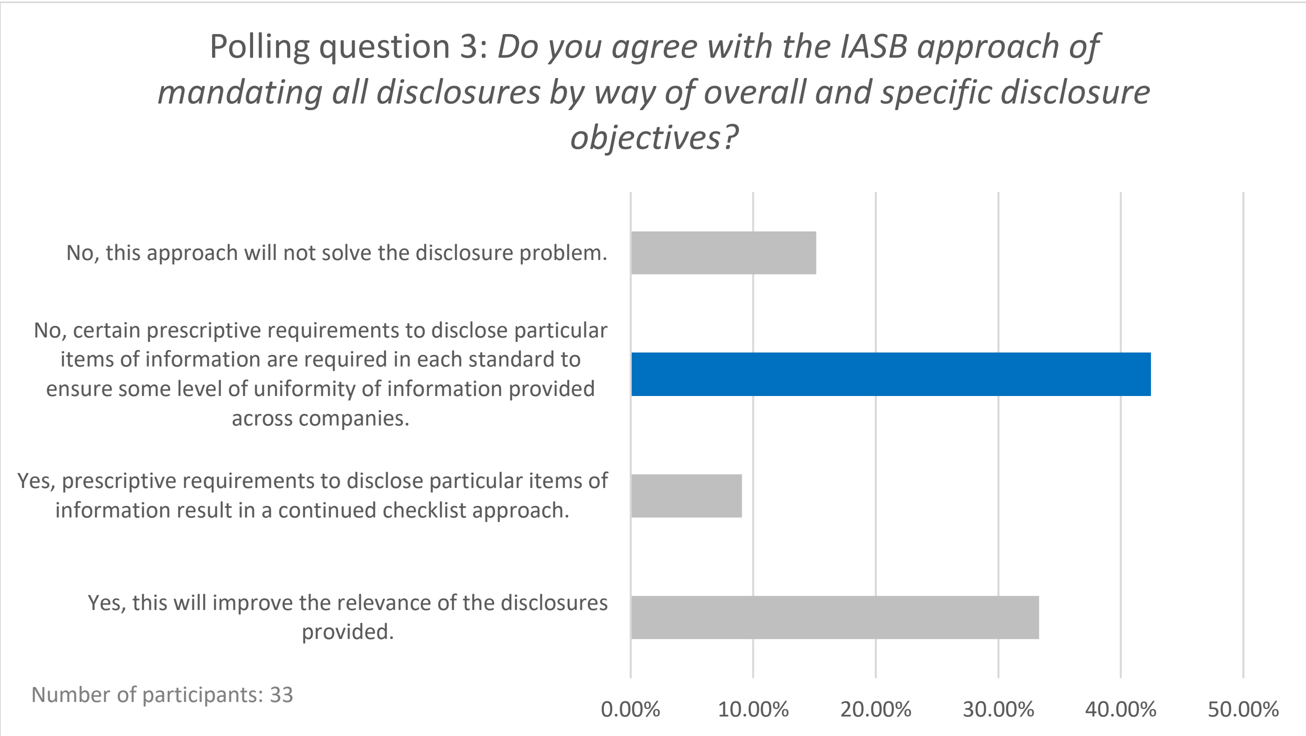
Pierre-Henri Damotte noted that additional costs on collecting and consolidating information would be incurred for new disclosures that were included in the IFRS 13 proposals, such as the disclosure of alternative fair value measurements and the extension to Level 1 and Level 2 of some information required for Level 3. Other additional costs included the increased use of judgement, higher implication of management and additional documentation to justify why certain non-mandatory items of information are included and why others are left out. Consequently, there would also be an increase in audit costs. Some of these costs would be incurred on a recurrent basis. He questioned whether the new approach would bring additional benefits.

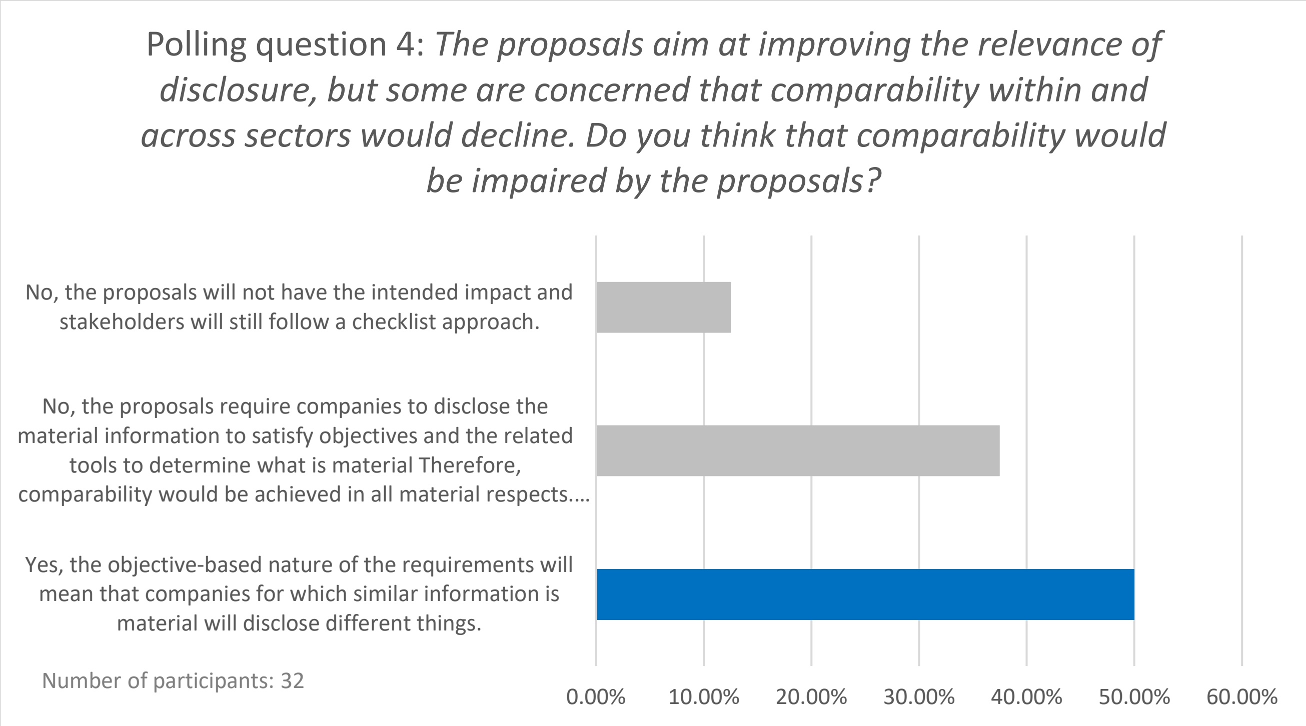
Martin Svitek noted that after having prepared the mock-up disclosures on IFRS 13 and with regard to this Standard, he did not foresee significant additional costs. From his point of view the approach improved the quality of the disclosures. To apply the approach to a new standard could be more challenging.

Maren Pollmann-Klein agreed with Pierre-Henri Damotte that introducing the disclosure of alternative fair value measurement would increase costs because of the need of more external expert opinions. Furthermore, applying the proposed approach would require more time and costs because of the additional discussions with auditors. On balance, in relation to the tested standards, she sees higher costs.

Silvie Koppes observed that the level of additional audit costs depended on how much change would result from the additional disclosures for a specific entity. It may be the case that for a new standard there may be more challenges than for the tested standards included in the ED. For existing standards, with well-established accounting practice, disclosure changes are limited. The audit costs may also depend on the kind of entity. The impact on entities that have experienced, and knowledgeable financial reporting resources may be different to entities that may not have such resources. In addition, the impact on the audit of subsidiaries may be different to the impact on group audits, especially if a decentralised model, when it comes to financial statements compilation, is applied. She noted that disclosures that were relevant at subsidiary level may not be relevant at group level and vice versa. Therefore, leveraging efforts on the audit work on disclosures may not always be possible.

Claes Norberg launched the following polling questions:





Nicklas Grip, Senior Vice President and Head of Regulatory Strategies at Group Finance at Svenska Handelsbanken, asked panellists the following question raised by the audience:

Audience question: *If materiality judgements are key to the understanding of how a company has shaped their disclosures, should the company be required to disclose their quantitative materiality levels along with details of the circumstances where qualitative factors have been used in determining how to meet the disclosure objectives?*
In the absence of this, the tendency is to use the auditor's materiality when trying to understand the assessments that companies have made regarding materiality, which is not necessarily the same as the company's own assessment of materiality.

Pierre-Henri Damotte opined that quantitative materiality could be easy to provide but qualitative considerations would be difficult. In addition, he considered that by disclosing some materiality levels we would turn back to a rule-based approach.

Silvie Koppes noted that in the UK there is a long form audit report that requires auditors to disclose materiality. This requirement tries to close the expectation gap of what the auditor is looking at. She commented that it mainly focuses on quantitative materiality leaving the qualitative aspects aside. She was hesitant whether it would be helpful if preparers provided similar disclosures. In her view, the materiality assessments should happen behind the scenes while users should read the end results in the financial statements.

What is the best way to go forward?

Lars Hamers stated that some minimum disclosure requirements are necessary in order to have comparability across entities. For entity-specific events or transactions, more descriptive disclosure requirements could be used.

Maren Pollmann-Klein supported the idea of a combination of checklist and the materiality approach. It would not be possible for a group with many subsidiaries to compile the information in time and assess materiality afterwards without a certain level of standardised disclosure requirements.

Pierre-Henri Damotte suggested having a minimum list of required disclosures, keeping the materiality assessments, and enhancing the requirements by introducing the overall and specific objectives.

Kazim Razvi noted that there is an information gap in terms of qualitative materiality (as investors materiality is different than preparers), which resulted in a lag of information. In his view, objectives could be helpful in addressing this point because they would provide a broad anchor point. For this reason, it was important to have a minimum prescriptive list as well as objective-based disclosures.

Martin Svitek agreed with the idea of having an objectives-based approach with a set of minimum disclosures.

Silvie Koppes supported a mixed approach because it would be more efficient to have a minimum required list if there was a pre-determined clear set of minimum disclosure requirements. The objectives were helpful in terms of introducing a dynamic component that allowed the provision of a disclosure if something unforeseen happens.

Topic 2: Proposed changes to IFRS 13

Kathryn Donkersley, IASB Staff member, presented the guidance in the exposure draft for IFRS 13 explaining the ED's proposed guidance on IFRS 13. She highlighted that the fieldwork showed an increased interest in understanding the entity's exposure to uncertainty, specifically the company's uncertainties regarding material fair values. This would be very relevant when Level 2 instruments in the fair value hierarchy require a lot of judgement due to their close relation to Level 3 instruments. As the classification under Level 2 is much more common than under Level 3 instruments, but the disclosures under Level 3 are currently much more detailed, the proposals avoid specific references of certain disclosures to levels of the fair value hierarchy. This should allow for the flexibility to disclose information that is important to users, thus disclosures for instruments close to Level 3 would be more relevant than for instruments close to Level 1. Additionally, she emphasised that the disclosure objective that relates to alternative fair value measurements using reasonable possible changes in assumptions should offer more advantages than the sensitivity analysis today as changing individual assumptions only may not reflect reality. Some fieldwork participants have signalled to continue with sensitivities but admitted that potential range of possible fair value measurements could also meet the objectives.

Fredré Ferreira, EFRAG Senior Technical Manager, introduced EFRAG's views as described in the presentation. She mentioned that some fieldwork participants would continue with sensitivity disclosures. Alternative fair value measurements could be less relevant when entities have a net asset exposure where reasonably possible changes in assets compensate changes in liabilities. She indicated that there would be a concern that the reduced references to the fair value hierarchy would lead to extended information for level 2 instruments. If extended information should be prepared for level 2 instruments, those should only be provided for those close to fair value level 3.

Claes Norberg asked the panellists about their thoughts on the alternative fair value as required in the ED in comparison to current sensitivity analysis and which would produce more useful information?

Pierre-Henri Damotte explained the current understanding of stakeholders regarding the alternative fair value approach in his jurisdiction and that stakeholder thought that new valuation methods would be required to be presented in addition. From such a point of view alternative fair value measurement would raise some issues from a conceptual and an operational viewpoint.

He added that from a conceptual point of view financial institutions deal with a large volume of instruments on both sides of the balance sheet. It would be more useful for single financial instruments where the impact on the financial situation is clearer than in cases where assets and liabilities are impacted simultaneously and symmetrically. If then only a worst-case scenario is taken into account, it will not reflect the compensatory effect of assets and liabilities, therefore it is questionable how to deal with such a disclosure. He further stated that from an operational point of view the measurement of level 3 instruments is complex and time consuming, so additional valuations will require more time during a very tight schedule for the preparation of the financial statements.

Concludingly, it will lead to additional cost to process the valuation and audit the valuation. The sensitivity information seemed to be more consistent and closer to their risk management practice and it would also provide more useful information. He alternatively suggested to improve the current requirements for the sensitivity analysis to have a better comparability between issuers of financial statements.

Martin Svitek stated that the existing sensitivity disclosures would suit the requirements for alternative fair value measurement in their case. The preparation was challenging with regard to the decision which levels should be included in alternative fair values. Judgement was needed to assess whether shifts in unobservable inputs in reasonable ranges for level s instruments would result in significantly different fair values, which was not the case. He underlined that a further continuation of the ED's proposals would require a more detailed analysis to defend potential non-disclosures which would cause more efforts and costs. He suggested to focus on unobservable inputs under the sensitivity analysis. Sensitivity inputs from active markets should not be required. IFRS 7 already provides information about such risks.

Maren Pollmann-Klein indicated that Deutsche Post DHL applies IFRS 13, IFRS 9 *Financial Instruments*, and IFRS 7 *Financial Instruments: Disclosures* as a non-financial institution, but they favoured a separate standard for financial institutions. She would not be concerned about applying alternative fair values as the underlying requirements would be the same, but it resulted in additional costs for more external opinions and auditor's discussions. She did not perceive alternative fair values as useful due to additional judgement needed, so Deutsche Post DHL would not support the proposal, but rather the continuation of the current sensitivity analysis.

Silvie Koppes admitted that she preferred the sensitivity analysis due to its focus on unobservable variables that mainly reflect the uncertainty. She was not convinced that providing alternative fair values taking into account observable inputs would result in more useful information and whether this "benefit" would justify the necessary cost. But, conversely, she would not object when entities would use alternative fair values to provide insights into estimation uncertainty instead of using a sensitivity analysis as long it was clear which unobservable inputs had been changed.

Kazim Razvi explained that he saw problems with corporates (non-financial institutions) that have complex financial instruments. He noted that measurement methodology and management judgement to transfer between Level 2 and 3 is not properly disclosed. He noted that some issuers "park" instruments in Level 2 to avoid additional reconciliation disclosure requirements (currently only mandatory for Level 3 instruments). Therefore, he favoured the disclosure of alternative fair values. Ranges of alternative fair values could be narrow in stable economic situations and much broader in stressful situations. Accordingly, when fair value ranges expand, additional sensitivity analysis of the unobservable input with the major impact should be disclosed. He also suggested that either standard setters should provide detailed guidance to separate Level 2 from Level 3 instruments or should require the reconciliation requirement for Level 3 instruments also to Level 2.

> "*Alternative fair value measurement would be more useful for single financial instruments than for cases where assets and liabilities are impacted symmetrically as such approach would fail to reflect the compensatory effect of assets and liabilities."* **Pierre-Henri Damotte.**

Claes Norberg pointed out to the presentation's graph summarising the distribution of fair values to different levels for major European banks, where Level 2 instruments were the most important. He asked the panellists about the reduced level references for disclosures about fair values (e.g., paragraphs 111 and 112 of the ED) and whether Level 2 instruments should also be included in the disclosures?

Silvie Koppes noted that in an ideal world instruments are accurately classified in the fair value hierarchy and therefore disclosures of alternative fair values for non-level 3 instruments would not be required as the unobservable inputs (e.g., for Level 2 instruments) would not contain significant estimation uncertainty and non-material information would not trigger disclosure. Nevertheless, she indicated being aware of the discussions about borderline Level 2 instruments. Possibly this may indicate these instruments should be classified as Level 3. However, if based on judgement that would not be the case, then she added that some borderline Level 2 instruments could trigger additional existing disclosures under IAS 1 *Presentation of Financial Statements* as significant judgement would have been made to conclude on Level 2 classification.

Kazim Razvi agreed with **Silvie Koppes** and emphasised a need for consistent management disclosures on management's differentiation between Level 2 and Level 3 as it does not seem to happen, except where companies like banks are heavily regulated. The question would be whether stronger and more indicators would be required to distribute more Level 2 instruments under Level 3 to relax requirements for Level 2 instruments. Otherwise, a consistent application would be required for Level 2 and 3 instruments.

Martin Svitek was less concerned about alternative fair values for Level 2 instruments as the preparation of mock disclosures had shown that the movement in unobservable inputs would not be material in their case. The reasoning would originate in the definition of Level 2 instruments as unobservable inputs in Level 2 instruments should only have a non-material impact and Erste had tested this during the preparation of the mock disclosures. This would also hold true on a portfolio level. He suggested that the IASB clarifies when such information on Level 2 might be appropriate from user's perspective.

Pierre-Henri Damotte argued that an extension of the disclosure requirement would give cause for serious concern regarding the operational burden due to the high volume of instruments. If the ED's requirement would be applicable it should be limited to unobservable inputs. He agreed that the nature of Level 2 instruments would not allow a material impacted by unobservable inputs thus the relevance of the information would be questionable. A solution could be to enhance the differentiation between Level 2 and 3 instruments.

Maren Pollmann-Klein repeated their disagreement with the proposals as those would result in additional cost without any additional benefit.

> "*If there is a continuing discussion about borderline Level 2 instruments and more disclosures, it seems reasonable to classify these Level 2 as a Level 3 instruments.*" **Silvie Koppes.**

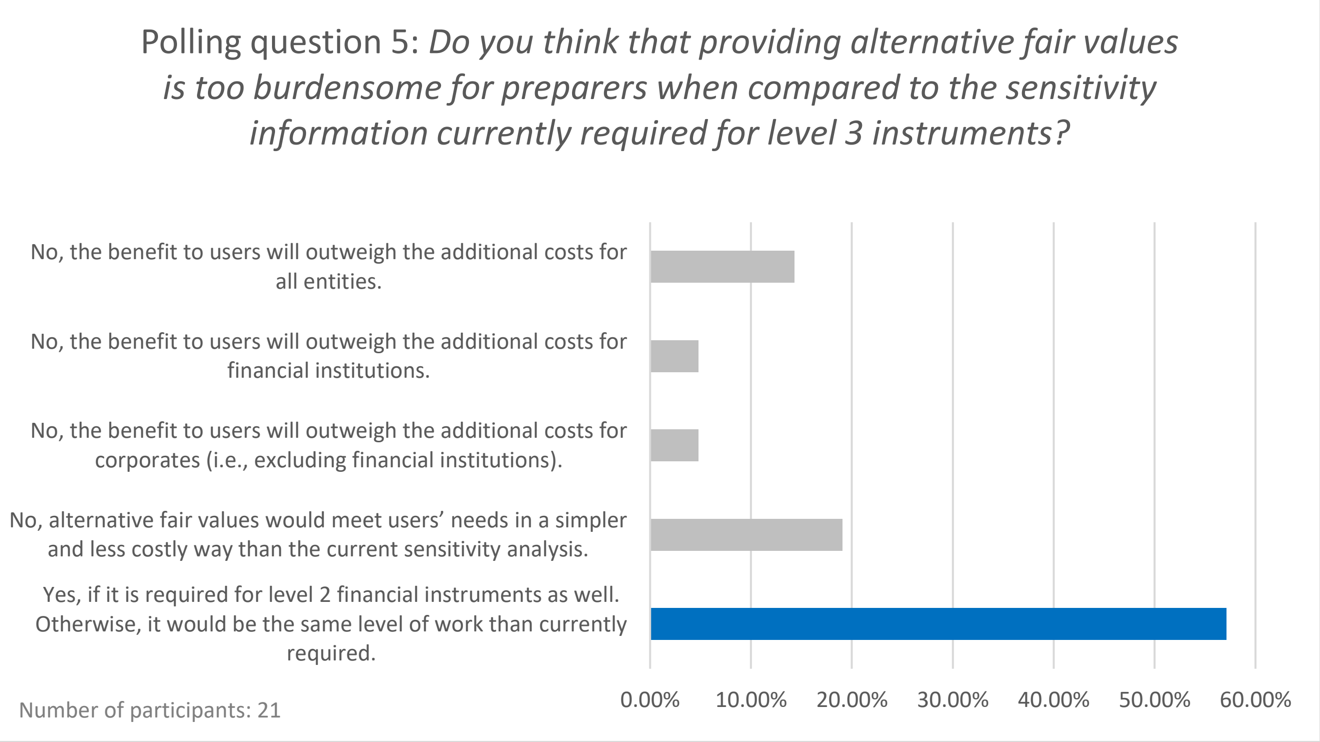
Claes Norberg asked Pierre-Henri Damotte what he would think about the proposal in paragraph 117 of the ED to disclose reasons for changes in Level 1 and Level 2 instruments.

Pierre-Henri Damotte explained about the doubts that the reference in paragraph 117 of the ED to paragraph 116 of the ED would raise about whether the information would be non-mandatory for Level 1 and 2 instruments and what level of granularity would be required. He further raised concerns that non-mandatory disclosures would also require a decision which depends on the collection of the information from the subsidiaries. He pointed to the high operational burden and to his view that such disclosures would not be beneficial for Level 1 instruments as these do not carry measurement uncertainty. The remaining market uncertainty would be more relevant for the management report.

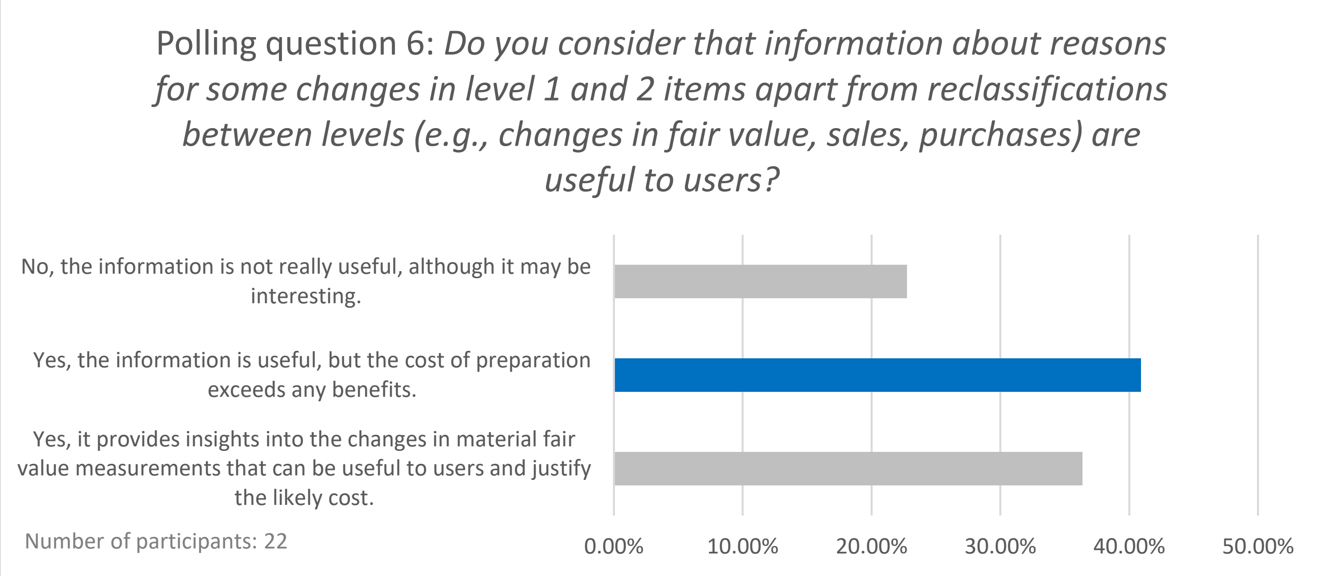
Claes Norberg asked Kathryn Donkersley to comment on the debate about the differentiation of Level 2 and 3 financial instruments.

Kathryn Donkersley stated that she heard some very valid comments about disclosures around management judgement when classifying financial instrument in the fair value hierarchy. She further referred to the outreach where it was made obvious that the hierarchy would not consist of three distinct buckets but rather present a continuum. There would not be a line that could simply be drawn bringing the application of management judgement to an end. She explained that the IASB did finally not consider requiring information on management judgement regarding classification decision for the different levels, especially Level 2 and Level 3 instruments, because it would in practical terms only lead to a boilerplate repetition of the requirement under IFRS 13. She noted that the outreach, field work done, and many suggestions received has demonstrated that things could be done better.

Claes Norberg launched the polling questions and asked Nicklas Grip to give some comments on the results.



Nicklas Grip stated that it would be interesting to have a division of the results into financial institutions and others as those would only have very few fair values. He assumed that it would be easier for non-financial institutions with few fair values to follow the proposals than for banks with much more exposure to fair values.



Nicklas Grip described that the views would fall much more apart than in polling question one.

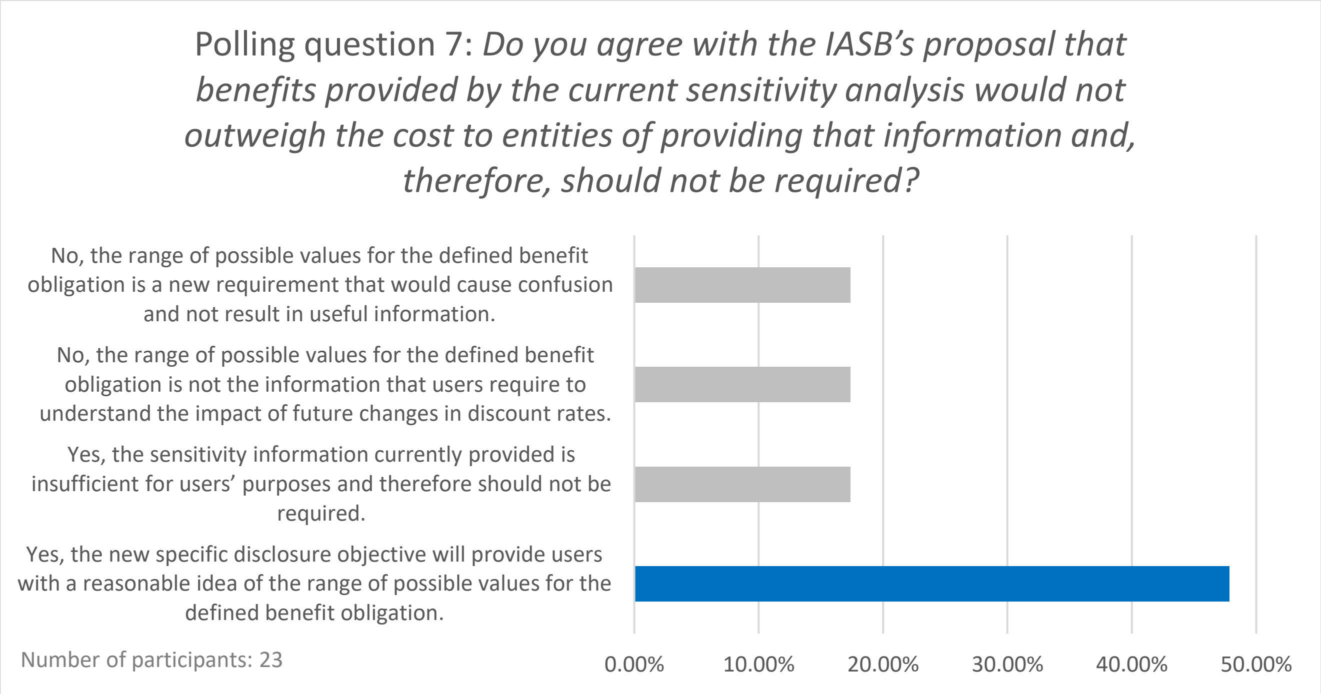
Claes Norberg **added that he sees in the polling results a conflicting interest between the usefulness of information and costs for preparers.**

Topic 3: Proposed changes to IAS 19

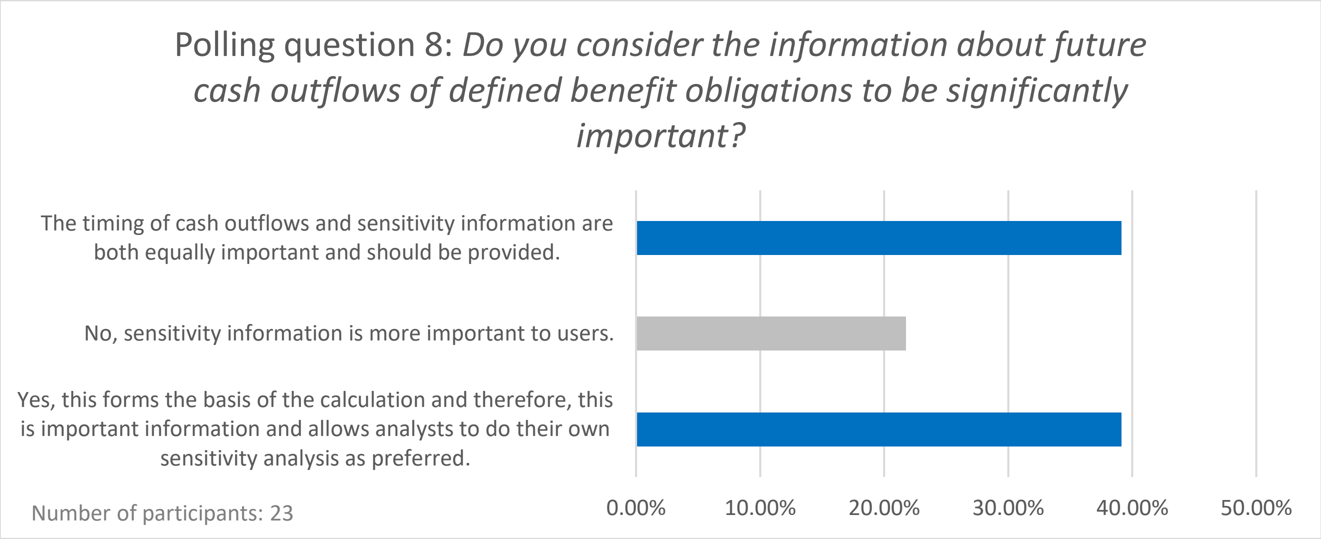
Kathryn Donkersley presented the guidance in the exposure draft for IAS 19. She described that users would be interested in where the risk resides with defined benefit plans and how a material defined benefit plan is expected to affect a company's cash flows to ultimately meet its obligations. Investors have stated that information is missing currently and that specifically cash flow information would be most useful. Preparers had also stated that cash flow information would be monitored. Moreover, users are interested in how the entity thinks it will address a possible deficit ultimately. But the proposals would give a degree of freedom about how exactly this information should be provided. She further mentioned that under IAS 19 the ED's proposals on the sensitivity analysis on key assumptions would be discussed in depth as well. The ED's proposals allow to disclose in a simpler way which assumption were used and what degree of management uncertainty would exist, while simultaneously giving a degree of freedom how to achieve these objectives.

Fredré Ferreira presented the findings of EFRAG's field test activity on IAS 19 as described in the presentation. She pointed out that there had not been significant changes in the information provided and that most or all of the preparers preferred to continue with the sensitivity analysis. Participants were also concerned about the usefulness to disclose future payments of closed defined benefit plans and the usefulness of the expected return on assets. She further added that auditors and users were very supportive of the sensitivity analysis and mixed support for alternative actuarial assumptions that seemed to be more like second guessing.

Claes Norberg launched the polling questions for the questions regarding IAS 19.



Nicklas Grip stated that the sensitivity of the discount rate would be the main sensitivity and that should be continued to be presented.



Nicklas Grip opined that the answer would probably depend on the pension system the company is operating within and what kind of obligation to provide additional cash or not exists.

Claes Norberg referred to the use of cash flows and asked Lars Hamers about his thoughts.

Lars Hamers introduced the current situation in his company where the majority of pension plans are defined contribution plans. He further spotted that recent conversation with investors had not shown any requests for additional information on defined benefit plans. The financial statements already had a summary at the beginning, but that the cash flow disclosures would currently be limited to just one year ahead. Therefore, the proposals regarding more information on cash flows would be a potential improvement were additional disclosures on future contributions and how the company satisfies the obligation over time would be useful for users.

Maren Pollmann-Klein agreed to the beforementioned and added that it would be easy to provide information on future contributions because the information would be an underlying basis for the actuarial reports. She further observed the need for increased explanations about the effect of plan assets on the cash flows as the proposals would only require disclosures for the liability.

Pierre-Henri Damotte shared the views expressed but wanted to comment on the requirement for open and closed plans as it was unclear to them what was the purpose of such a differentiation. He further expressed that information about the management of the risks of plans would be more useful.

Kazim Razvi stressed the relevance of future cash flows as it would be the most important aspect. All inputs disclosed for the sensitivity analysis and also elsewhere (weighted average life, number of active members etc.) would be a means to understand the companies' obligation and potential future deficit.

Geert De Ridder agreed that cash flow disclosures are useful, but he indicated that companies should already provide such information under the existing standard. He acknowledged that cash flow disclosures about future contributions to funded plans would make sense if such information were available, but difficulty would often exist for longer term projections as contributions are usually highly dependent on the unpredictable development of plan assets. Moreover, minimum funding requirements would vary across countries and their description would create complexity and also lengthy boilerplate information.

He proposed to give a breakdown of the key metrics between funded and unfunded plans by main countries as typically many companies have only few large important plans in a limited number of countries. More experienced users were probably familiar with the regulatory environment for key pension countries. This may easily give a clear view on the cash flow implications of unfunded or underfunded plans. He found the proposed disclosure requirement about closed pension plans not very convincing, especially if funded, considering that closed plans are often replaced by other plans providing similar benefits.

Kazim Razvi had the same position as he did not think that a lot of information could be provided for such long-term aspects. Analysts would have to understand and make their own judgements for other factors. But he also mentioned that analysts need consistent data points for comparison. Regarding closed plans he commented that some issuers were underfunded as the investment strategy for pension assets was very defensive in fixed income leading to a systematic funding deficit. As a consequence, the expected rate of return should be disclosed, and a sensitivity analysis should be provided in such situations.

Claes Norberg referred to Kathryn Donkersley to explain the IASB intention to require additional disclosures on closed plans.

Kathryn Donkersley explained that the reason for such disclosures were that once a plan is closed to new members the position is relatively clear about the future economic burden, so the company has to consider how the plan obligations could be met in the future. Open plans would offer less clarity. She added that issuers currently have a lot of closed plans, and some specific information would be useful.

Claes Norberg also asked the panellists whether a sensitivity analysis under IAS 19 would be useful as the proposals do not require the analysis anymore.

Maren Pollmann-Klein stated that a sensitivity analysis under IAS 19 is very useful information for prepares and users.

Lars Hamers concurred with the statement about the usefulness of the sensitivity analysis, and it would still be the preferred approach to provide disclosures on measurement uncertainty. The company would get the input from an external actuary, challenged by local actuaries, and then the sensitivity analysis would come in addition. Alternative actuarial assumptions should be covered already in the sensitivity analysis that is provided by the entity.

Pierre-Henri Damotte fully shared the view. Société Générale would still continue with the sensitivity analysis even if not required.

Geert De Ridder emphasised that a sensitivity analysis on the discount rate or the duration are very useful as they enable users to understand changes of the defined benefit obligation during the year. Indeed, if there is one assumption that changes nearly every year, it is the discount rate. Furthermore, from a purely economic point of view, pension liabilities should be discounted with the expected rate of return on the assets. As such the liabilities calculated for accounting purposes may overstate the true liability. Hence, the duration or sensitivity analysis may enable users to assess the company's economic burden. In order to obtain more meaningful disclosures, he suggested to disclose a breakdown of the benefit obligations by accrued benefits and the portion of the benefits related to future salary increases, and also to disclose alternatively figures based on standard mortality tables for companies that use entity specific mortality assumptions (like in the US or in UK).

Kazim Razvi agreed that sensitivity analysis would be useful but disagreed with the earlier statement that all pension obligations should be discounted using the expected rate of return. He highlighted that some US Public Pension Plans, which uses expected rate of return for pension obligation, started investing in risky assets and consequently applied a higher expected rate of return to understate their pension liabilities. Instead, he suggested that liabilities discounted at expected rate of return should be provided as a sensitivity analysis. This would provide very useful information for users. In addition, the sensitivities should be streamlined in terms of similar life expectancy, real interest rates, longevity and inflation assumptions.

Maren Pollmann-Klein disagreed with the views presented. In her view expected rates of return would not comprise useful information as there was a lot of judgement in the rate. She emphasised that IAS 19 has changed regarding the interest rate used for discounting and it should not be changed into another direction. **Kazim Razvi** directly replied and asked a question – how would you make an investment strategy or change an existing portfolio without assessing expected rate of return? If someone decides not to disclose this information, then they must provide a good reason for doing so.

Claes Norberg asked Lars Hamers to give his opinion on the fact that there is only a disclosure objective for defined contribution plans and whether there should be more specific objectives.

Lars Hamers pointed to the existence of less uncertainty in cases where there are only defined contribution plans, which might justify less specific disclosure requirements. He agreed with the proposal about the appropriateness of just having a general overall disclosure objective.

Pierre-Henri Damotte concurred with the statement made, but he also explained that when defined contribution plans would be very significant the requirement proposed would not be sufficient and merely boilerplate. He expected some more guidance on the user's needs and pointed out that the objective is very broad and could be applied to every asset or liability. Finally, he concluded that the new approach would create challenges for the IASB in the future to provide useful information for preparers when new standards are developed, or old standards are changed only considering an overall disclosure objective.

Claes Norberg asked for comments from the audience. Nicklas Grip referred to a remark about the flexibility of disclosures under IAS 19. He admitted that companies would handle the flexibility differently. Form his point the proposals would be relatively flexible for adjusting the disclosures with regard to different pension plans.

Claes Norberg finally requested the panellists to comment on whether the new approach should only be applied to new standards or also to current standards that have a well-developed disclosure and accounting practice.

Lars Hamers conceded that they only identified a few changes to their disclosures so it seems that the new approach would make more sense for new standards. This will probably lead to different disclosures than when prescriptive disclosures would have existed. Nevertheless, he suggested to have some minimum disclosure requirement to ensure some comparability across companies.

Maren Pollmann-Klein fully agreed in the light of their discussions with investor relations as there have been no requests from analysts about missing disclosures. She also supported the application of the new approach to a new standard and concluded that a checklist or at least minimum requirements should exist.

Kazim Razvi supported the idea of having disclosure objectives, which are very helpful for both mandatory and voluntary disclosures. Objectives could be very useful in addressing unexpected emerging events or risks as highlighted by regulators (ESMA / FRC). Subsequently, EFRAG and FRC LAB would pick up good practice voluntary disclosures in respective jurisdictions which could be added to mandatory disclosure requirements. He supports a minimum checklist approach like the other panellists, but the checklist will probably be dynamic as good practices will have to be included and redundant disclosures will have to be excluded in subsequent IFRS maintenance cycles. He emphasised that such a setting would be helpful for all stakeholders (preparers, auditors, regulators and users).

3. Closing of the event

Claes Norberg handed over to **Nicklas Grip** to make summarise the discussion. **Nicklas Grip** thanked all panellists, the audience, and **Claes Norberg** for taking over the moderation. He appreciated the comments and new information gained from the discussion. From his view the feedback on the general approach using objective-based disclosure requirements was very positive. But he also summarised that he had recognised a need to incorporate the checklist approach, whereby other see the merits of objective-based disclosures. Those views will have to be aligned, although some positions might change due to a better understanding or a change in wording in the ED that better reflects the intention of the IASB. The successful implementation will be a joint effort of several parties (preparers, auditors, and enforcers) to change the mindset and focus on materiality although current standards also consider materiality. The main idea should be to have more relevant disclosures and to concentrate less on checklists.