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Disclosure Initiative – Targeted Standards – Level Review of Disclosure- Issues paper

Objective

- 1 The objective of this session is to provide the EFRAG Board and EFRAG TEG with an update on the IASB's project *Disclosure Initiative - Targeted Standards – Level Review of Disclosure* and discuss possible activities that EFRAG could undertake.

Background

- 2 In March 2017, the IASB issued Discussion Paper *Disclosure Initiative - Principles of Disclosure* (the 'IASB DP') to tackle the so-called 'disclosure problem'; that is concerns that disclosures included too many irrelevant information, not enough relevant ones and that information was sometimes ineffectively communicated.
- 3 The IASB DP aimed at helping preparers improve disclosures for users of financial statements and communicate information more effectively and help the IASB develop disclosure requirements in IFRS Standards.
- 4 Many respondents (including EFRAG), while supporting the objectives of the project and agreeing with the description of the 'disclosure problem', considered that a higher priority should be given by the IASB to undertaking a review of existing disclosure requirements; Such a review would aim to identify and remove any disclosure requirements that are disproportionate or redundant.

IASB current activities

- 5 In response to the feedback received, the IASB considered whether to undertake a comprehensive review of all existing disclosure requirements.
- 6 However, it was considered that such a comprehensive review would run the risk that a significant amount of time is invested in proposals that are not well received because the approach has not been tested on a smaller set of IFRS Standards. A more targeted review would allow to develop and then test its new approach and seek feedback much earlier.
- 7 Therefore, the IASB decided that it should undertake a targeted Standards-level review once it has developed its own drafting guidance for disclosure requirements. For this purpose, the IASB has selected two IFRS Standards for the testing: IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*. The two IFRS Standards were not selected because they were considered the most 'in need of fixing' but rather because they were deemed suitable candidates for testing purposes.

- 8 In making its selection the IASB considered a number of factors including the feedback from previous consultations (in particular the post implementation review of IFRS 13) about the perceived complexity and adequacy of existing requirements.
- 9 Over 2018, the IASB tentatively developed a new drafting approach for disclosure requirements that essentially aims at basing any disclosure requirements on one or more specific disclosure objectives explaining why the information is useful to the primary users of financial statements, and what was the primary use of this information would be. In order to do this, the IASB planned to reach out to stakeholders (in particular users) when developing disclosure requirements and document the effects of the proposed disclosure objectives and requirements (including their cost and benefits) at an early stage of the development.
- 10 The IASB expects to issue, expected over 2019, two exposure drafts proposing amendments to the disclosure requirements of the selected IFRS Standards. The consultation documents would also include a description of the IASB's new approach to developing disclosure requirements and seek feedback from stakeholders.
- 11 Lastly, the IASB tentatively decided: not to consider some of the matters discussed in the IASB DP and in particular:
 - (a) not to develop requirements about the use of cross-references (i.e. IFRS information provided outside the financial statements);
 - (b) not to develop requirements about non-IFRS information provided within financial statements; and
 - (c) to take no further action within the Principles of Disclosure project to consider the effect of technology and digital reporting on accounting policy disclosures and consider issues relating to the broader implications of technology for financial reporting as part of the IFRS Foundation's Technology Initiative.

EFRAG's Activity

- 12 Since the publication of its comment letter in October 2017, the EFRAG Secretariat has been monitoring development on the projects which have been discussed at several EFRAG TEG and EFRAG CFSS meetings.
- 13 Members generally agreed with giving priority to developing drafting guidance and testing it on targeted IFRS Standards but highlighted the importance of not losing sight of the objective to address the 'disclosure problem' by developing a clear, effective, coherent and comprehensive but concise package of disclosure requirements. In that context, a comprehensive standard-level review seems a critical element of the resolution of the disclosure problem.
- 14 The EFRAG Secretariat also observes that the IASB has indicated that it would not be prevented from undertaking a more comprehensive review of disclosure requirements at a later stage (after the testing phase) but the IASB has not made any decision in that regard at this stage.
- 15 Considering the time needed to test the new drafting guidance and finalise the amendments on the two targeted IFRS Standards, it is however unlikely that such review could take place in the near future.
- 16 In September 2017, the EFRAG Board discussed issues associated with consistency in financial reporting. It was noted by some that a standards-level review of disclosures requirements could be helpful in that respect.

- 17 The EFRAG Secretariat considers that there could be merits in looking more holistically at the existing disclosure requirements across all endorsed IFRS Standards in order to identify requirements that are either redundant, disproportionate or inconsistent. Such a review could also help identify and better target future standard-setting efforts.
- 18 For instance, it could be worthwhile to look at the general disclosure requirements in IAS 1 *Presentation of Financial Statements* together with those contained in other IFRS Standards to identify whether redundancies exist. It would also provide the opportunity to compare disclosure requirements in related IFRS Standards, such as those related to assets (IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*), to identify whether any of these are disproportionate or inconsistent.
- 19 In this context, the EFRAG Secretariat is seeking the views of the EFRAG Board and EFRAG TEG as to whether additional activities should be conducted by EFRAG in parallel to the IASB targeted review.

Questions for EFRAG Board - TEG

- 20 Do EFRAG Board and TEG members consider that a more holistic review of existing disclosure requirements should be conducted?
- 21 If so, do you consider that the EFRAG should undertake such a review?