Targeted Standard-level Review of Disclosures
Issues paper

Objective

1 The objective of this session is to obtain the views of EFRAG TEG and EFRAG CFSS on the feedback received by the IASB from its outreach with users regarding the disclosure requirements in IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*.

2 These views will be used as an input for the discussion at the ASAF April 2019 meeting. The input can be summarised using the tables in Appendix 1.

Background

3 In response to the feedback received on the *Disclosure Initiative - Principles of Disclosure* Discussion Paper, the IASB decided in March 2018 to:

(a) develop guidance for the itself to use when developing and drafting disclosure requirements; and

(b) test the guidance by applying it to the disclosure requirements in IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*.

4 EFRAG TEG and EFRAG CFSS received an update on the project in July 2018 and discussed in particular the reasons for selecting these IFRS Standards for testing (see the *meeting agenda paper*).

5 During 2018, the IASB Staff tentatively developed a new approach to drafting disclosure requirements. The approach aims at basing any disclosure requirements on one or more specific disclosure objectives that explain why the information is useful to the primary users of financial statements, and what is the primary use of this information.

6 In order to do this, IASB Board members and Staff has reached out to users to understand their needs and held meetings with a number of users from buy-side, sell-side and credit rating agencies. Users were asked about:

(a) their primary objectives when analysing information relating to IAS 19 and IFRS 13; and

(b) suggested items of information that could be used to meet those objectives.

IAS 19 Employee Benefits

Summary of the feedback received by the IASB

7 Primary disclosures objectives that the users identified include the following:

(a) forecast future pension obligation;

(b) determine the value of the pension obligation to input into analyses for forecasting, such as enterprise value calculations;

(c) evaluate the impact of the pension obligation on the entity's cash flow;

(d) assess the appropriateness of the assumptions and amount underlying the entity's valuation of its pension obligation;

(e) understand the economics of the plan(s) held and specially, the risk to which the plan(s) expose the entity;

(f) understand the sensitivity of the pension obligation to different assumptions to determine appropriate adjustments for risks;

(g) understand the risk, and expected future cash flows, associated with closed defined benefits plans (including understanding the time period over which any remaining obligation is expected to wind down); and

(h) understand the effect of an entity's plan(s) on the primary financial statements.

8 Users suggested the following disclosures to meet those objectives:

(a) explanation, and disaggregation, of amounts recognised in the financial statements (including clear statements whether plans are in surplus or deficit, actual cash flows related to the plan and amounts recognised the income statement);

(b) narrative information about the nature and characteristics of the plan;

(c) assumptions used (including demographics) in deriving the pension obligations;

(d) sensitivity analysis on a wider range of possible assumptions and effect of changing multiple assumptions simultaneously;

(e) explanations of differences between various pension valuations (when valued for different purposes);

(f) information about the expected contributions into the plan and the basis for those expectations;

(g) fair value of the plan assets disaggregated by types of assets;

(h) reconciliation between the opening and closing balances of the fair value of plan assets and the present value of the pension obligation; and

(i) information about the expected future benefit payments to members of closed plan (including a maturity analysis of the pension obligation).

EFRAG Secretariat's preliminary views

9 The EFRAG Secretariat has no information at this stage of the project as a basis for assessing the potential costs or benefits of the proposals. Therefore, our comments are limited to general considerations.

10 In March 2018, the EFRAG Pension Plans Advisory Panel (EFRAG PAP) discussed how to address the information needs of users regarding pension plans. The EFRAG PAP's discussions (based on limited outreach with users conducted by the EFRAG Secretariat) were generally consistent with the IASB's outreach findings, in particular regarding the need for more sensitivity analyses, reconciliation between

periods, risks of the plan, the effects of alternative assumptions, the maturity analysis of the pension obligation, regulatory information and financial statements impact.

11 In addition, the EFRAG PAP identified the need for additional information which was not explicitly mentioned in the IASB's feedback. The EFRAG PAP considered that there is a need for separate disclosures about minimum return guarantees, including information such as when a guarantee might affect the payments.

12 Regarding the cost for preparers, the disclosure items listed in paragraph 8 have the potential to significantly modify/expand t existing requirements. Some EFRAG PAP members expressed concerns that the current requirements are already extensive, may not be relevant for all businesses, and are not understandable by investors (as the volume of disclosures may obscure relevant information).

13 Regarding the potential impact for auditors and the verifiability of the information, the EFRAG Secretariat notes that most of the suggested pieces of information are backward looking. However, a few are forward looking, namely information about expected contributions into the plan (including internally budgeted) and information about the expected future benefit payments to members of closed plan. These could create concerns in terms of verifiability.

14 The EFRAG Secretariat has not identified specific consequences for regulators besides the fact that some of the requirements may duplicate information in other regulatory reporting.

15 Finally, it is our understanding that under the approach being tested for developing disclosure requirements a cost-benefits analysis of the proposed disclosure requirements would be considered before the consultation document is issued. We consider that the potential for significant change in the approach to setting disclosure requirements warrants extensive outreach to a broader set of stakeholders than users in order to assess the costs and benefits of the proposes changes.

Questions for EFRAG CFSS and EFRAG TEG members

16 What are EFRAG TEG-CFSS members view on the highest priority for the items identified by users, particularly in relation to the following aspects:

(a) Cost consequences for preparers;

(b) Consequences for auditors;

(c) Consequences for regulators; and

(d) Expected benefits to stakeholders other than users.

IFRS 13 *Fair Value Measurement*

Summary of the feedback received by the IASB

17 A key message from users was about the importance of a proper application of materiality to IFRS 13 disclosure. Many users considered, often, a lot of information is provided about immaterial fair value measurements whereas little information is given about more material items. Some users considered that these concerns could be most effectively addressed through a better application of the materiality concept. Others assessed that some form of standard setting could help (for example, by requiring entities to provide similar disclosures for Level 2 and Level 3 fair value measurements).

18 Users identified the following objectives for disclosure requirements:

(a) understand the sensitivities of the entity's instruments measured at fair value;

(b) determine the appropriate fair value adjustment to input analyses such as enterprise value calculation;

(c) forecast future fair value movements in order to, for example, determine expected returns on assets;

(d) assess the appropriateness of the inputs, techniques and amounts underlying an entity's fair value measurements; and

(e) understand the nature and characteristics of the assets and liabilities measured at fair value, particularly for complex or hybrid instruments.

19 To meet the above objectives, users suggested that disclosure requirements should include:

(a) a breakdown of the type of instruments within each level of the fair value hierarchy including some narrative description for complex instruments;

(b) narrative explanation about how an entity has determined the level to which an instrument belongs, particularly where this involves judgment;

(c) inputs used in deriving the fair value measurements;

(d) for level 3 fair value measurements, sensitivity analyses including a wider range of possible fair value measurements and an analysis of the effects of changing multiple inputs simultaneously;

(e) valuation techniques and processes in developing level 3 fair value measurements;

(f) reconciliation between opening and closing balances of level 3 fair value measurements;

(g) additional disclosures for level 2 instruments, similar to those typically provided for level 3;

(h) fair value of financial instruments not held at fair value; and

(i) explanation, and disaggregation of the total fair value of assets and liabilities recognised in the primary financial statements.

EFRAG Secretariat's preliminary views

20 The EFRAG Secretariat has no information at this stage of the project as a basis for assessing the potential costs or benefits of the proposals. Therefore, our comments are limited to general considerations.

21 In November 2017, EFRAG TEG and EFRAG CFSS discussed the input received by the IASB from its request for information on Post-implementation Review of IFRS 13 (including in [EFRAG's comment letter]).

22 EFRAG's comment letter included the results of extensive outreach with users. EFRAG received views from more than 25 users from 10 European jurisdictions through a questionnaire, targeted outreach and discussion with bodies such as EFRAG User Panel. The respondents provided comments that are generally consistent with the input from the IASB's outreach with users. They generally considered that the most important objective for the disclosures is 'to ensure that users of financial statements can understand the fair values disclosed and how they were determined'.

23 The following comments were made on the appropriateness of the existing disclosure requirements:

(a) users had mixed views on whether IFRS 13 improved their ability to assess the <u>future cash flows of an entity</u>. Users that found the disclosures useful noted that fair value disclosures enable them to adjust their valuations through time as capital markets move and influence these items. In addition, they noted that the distinction between Levels 1, 2, and 3 assists in determining the risk inherent in valuations of financial instruments;

(b) clearer information about methodologies and inputs used is needed;

(c) existing disclosures requirements of Level 3 fair value were considered useful but they varied in amount and quality, especially regarding information about key unobservable inputs which was sometimes missing or not sufficiently disclosed;

(d) sensitivity analysis needs improving as current sensitivity disclosures do not always provide understandable information; and

(e) an inappropriate level of aggregation may limit the usefulness of information. Users recommended:

    (i) distinguishing realised gains from unrealised gains for Level 1 and 2 fair value measurements as is required for Level 3; and

    (ii) for level 3, gains and losses of different natures should not be aggregated.

24 Regarding the costs for preparers, the EFRAG Secretariat considers that the disclosure items listed in paragraph 19 have the potential to significantly change and increase existing requirements and therefore affect the cost for preparers. In particular we note the suggestions to (a) align disclosures for Level 2 instruments with those typically provided for Level 3; (b) provide expanded sensitivity analyses (combining multiple assumptions) as potential contributors to cost increases and (c) expanded disaggregation of and explanation of the total fair value of assets and liabilities recognised in the primary financial statement.

25 EFRAG also received limited feedback from preparers in its consultation on the Post-implementation Review of IFRS 13 that some of the existing requirements in IFRS 13 were costly and not necessarily always needed. Those items included:

(a) the reconciliation of Level 3 instruments required by IFRS 13, paragraph 93(e); and

(b) the requirements of paragraph 97 of IFRS 13 (as well as paragraph 25 of IFRS 7 *Financial Instruments: Disclosures*) that requires disclosure of the fair value of items not carried at fair value is costly and not relevant where these items are held in a long-term business model. Disclosure requirements should be aligned with the business model and operations of the entity.

26 Regarding the impact for audit, the EFRAG Secretariat is of the view that most of the suggested information is either already required or backward looking. However, expanded sensitivity analyses (considering a wider range of possible assumption and changing multiple inputs simultaneously) may create complexity and challenges for the audit.

27 Regarding the effects on regulators, the EFRAG Secretariat observes that ESMA issued in 2017 a report (link) on the application of IFRS 13 (including the effectiveness of disclosure requirements) that identified issues with the disclosures that are generally consistent with the feedback provided by users to the IASB Staff:

(a) description of inputs and methodologies used (either too generic or 'boilerplate');

(b) description of sensitivities;

(c) lack of disaggregated information; and

(d) insufficient information on transfers between Level 1 and Level 2 fair values.

28 The EFRAG Secretariat considers that a cost-benefit analysis of the suggested additional disclosures would need to be conducted with outreach with a broader range of stakeholders than users.

Questions for EFRAG CFSS and EFRAG TEG members

29 What are EFRAG TEG-CFSS members view on the highest priority for the items identified by users, particularly in relation to the following aspects:

(a) Cost consequences for preparers;

(b) Consequences for auditors;

(c) Consequences for regulators; and

(d) Expected benefits to stakeholders other than users.

Agenda Papers

30 In addition to this cover note, agenda papers for this session are:

(a) Agenda paper 07-02 – ASAF11 *Cost-Benefit consideration*;

(b) Agenda paper 07-03 - ASAF 11A *Summary Users Outreach*; and

(c) Agenda paper 07-04 ASAF 11B *Investor briefing material*.

Appendix 1- IASB f template to provide input for the ASAF meeting

31 The IASB Staff invites members that are able to do so, to provide their feedback ahead of the ASAF meeting using the templates below:

Discussion on IAS 19

	Cost consequences	Audit consequences	Regulatory consequences	Expected benefits (other than users)
Explanation, and disaggregation of amount recognised in the financial statements. Disaggregation by geography, segments, member type and/or plan type.				
Narrative information about the nature and characteristics of defined benefit plans.				
Identification of the significant financial and demographic assumption. Including an explanation as to why those are the most significant.				
Wider sensitivity analysis of the principal actuarial assumptions. The analysis also shows the effect of the changing multiple assumptions simultaneously.				
Explanation of differences between various pension plan valuation (IAS 19 valuation, funding/triennial valuation, buyout value)				
Schedule of expected contribution into the plan(s), either as agreed with trustees/appropriate regulatory bodies or internally budgeted.				
Fair value of the plan assets disaggregated by asset types. Including information about associated risks, hedging activities and actual rate of return on specific asset types.				
Reconciliation between the opening and closing balances of the plan assets and pension obligation				
Schedule of expected future benefit payments to members of closed plans. Including the maturity analysis and information about approach to managing remaining obligation.				

Discussion on IFRS 13

	Cost consequences	Audit consequences	Regulatory consequences	Expected benefits (other than users)
Breakdown by the type of instruments within each level of the fair value hierarchy. Including additional explanation for complex instruments.				
Narrative information about how an entity has determined which level an instrument belong in.				
Identification and explanation of the inputs used in deriving the fair value measurements.				
Wider sensitivity analysis of Level 3 fair value measurements. The analysis also shows the effect of changing multiple inputs simultaneously to reflect alternative assumptions. Provide effect(s) on profit or loss/OCI on a post-tax basis.				
Valuation techniques and processes applied to Level 3 fair value measurement.				
Reconciliation between opening and closing balances of Level 3 fair value measurement.				
Additional disclosures for Level 2 fair value measurement. Including wider sensitivity analysis and reconciliation commented above.				
Fair value of financial investments not held at fair value.				
Quantitative sensitivity analysis for investment property measured at fair value.				
Explanation and disaggregation of total fair value of assets and liabilities recognised on the balance sheet. Disaggregation by geography and instrument type.				