Draft Comment Letter

You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 15 October 2021.

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX Month 2021]
Dear Mr Barckow

Re: Disclosure Requirements in IFRS Standards—A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the exposure draft *Requirements in IFRS Standards—A Pilot Approach* (Proposed amendments to IFRS 13 and IAS 19) issued by the IASB on 25 March 2021 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

General Comments

EFRAG supports the objective of the project to improve how the IASB develops disclosure requirements and test whether such improvements would be effective. EFRAG also understands that the IASB's focus is on the provision of more relevant disclosures (and less irrelevant ones) and not on changing the volume of disclosures. EFRAG welcomes the development of a rigorous methodology to define objective-based disclosure requirements, with the same level of depth and scrutiny as the requirements for recognition and measurement. In the 2012 Discussion Paper *Towards a Disclosure Framework for the Notes*, EFRAG, the ANC and the FRC called for such an initiative. EFRAG reiterated its support in its 2017 comment letter in response to the IASB's Discussion Paper *Principles of Disclosures*. EFRAG continues to hold the view, expressed in its 2017 comment letter in response to the *Principle of Disclosure* Discussion Paper, that developing and testing such an approach has merits and should be encouraged as we support the reduction of detailed disclosure checklists.

EFRAG agrees, in particular, with the proposal to work more closely with users of financial statements and other stakeholders early in the standard-setting process to understand what information they need, and to articulate better how such information is intended to be used. EFRAG is pleased to see how the IASB worked with stakeholders, in particular investors, to develop proposed amendments to IFRS 13 and IAS 19.

Field testing the proposals

EFRAG recommends that a comprehensive outreach and field testing of the proposals are undertaken, to assess the operational challenges for preparers but also for enforcers and auditors. The purpose of such extensive field testing would be to identify potential implementation and application concerns, and to determine whether there is a need for additional guidance.

EFRAG considers that assessing the costs versus the benefits of the new approach, as applied to the two selected IFRS Standards, will be paramount in demonstrating the validity of the proposals. Assessing the benefits (for both preparers and users) from the proposed approach may not be an easy task as:

- the proposals will only achieve their full benefits if not only preparers of financial statements, but also auditors and regulators use appropriate judgement when applying those requirements; and
- the effects of the proposals may vary based on the diverse nature of entities, from small to large and from less to more sophisticated. Less resourced or less sophisticated entities when confronted with such an increased level of judgement, may tempt such entities to continue providing the same disclosures as before or use the non-mandatory examples as new checklists.

It is therefore essential that the field test activities:

- involve representatives of enforcers and auditors;
- consider the diversity of the nature of reporting entities and does not focus only on the most advanced or best resourced ones; and
- includes an assessment by users of financial statement on the benefits of the approach and the usefulness of the information resulting from the application of the proposals.

EFRAG notes that the final impact of the proposals depends, to some extent, on the willingness of preparers to undertake a change to their approach to the use of judgement. In some cases, a tendency to maintain the existing requirements or an increase of disclosures cannot be excluded. The field test would help to better understand this issue.

Effects of technology and digital reporting

EFRAG notes the trade-off between providing relevant (entity-specific) disclosure and providing comparable disclosure and EFRAG encourages the IASB to further consider the interaction between the proposals in the ED and the increased use of digital reporting, as comparability of the information is a pre-requisite of an effective use of technology-based reporting.

EFRAG observes also that developments in technology influence how information is included in financial statements and how such information is used. With digitalisation some of the issues detected in relation to disclosures provided in Financial Statements could be handled, in particular in relation to summarising or condensing information.

EFRAG considers that the interaction of objective-based standards (moving away from lists of required disclosures) and electronic reporting might create specific challenges with comparing information like for like and over time.

In particular, EFRAG is concerned that an increased use of entity-specific XBRL extensions could be challenging and affect the comparability of the information. Although, at the European Union level, the current ESEF regulation only requires block tagging for disclosures, EFRAG observes that, at a global level, users of the IFRS Taxonomy may be affected by increased entity-specific tagging as it requires the detailed tagging of the footnotes to the financial statements.

Role of the notes

EFRAG considers that a necessary preliminary step is clarification of the role (and therefore the boundaries) of the notes and ensuring that the overall and specific objectives developed at standard-level are consistent with that role. Therefore, EFRAG encourages the IASB to consider the interaction of the ED proposals with the amendments that may result from IASB's Exposure Draft 2019/7 *General Presentation and Disclosures* regarding the proposed role as defined of the notes to financial statements.

Comments on the proposed drafting guidance

EFRAG is concerned that the objective-based disclosure proposals in the ED, without requiring disclosure of specific items (or only a limited number of them), risks application challenges for preparers, increased enforcement challenges and may ultimately impair comparability of information.

EFRAG observes that the proposed approach increases the emphasis on the requirement to meet a disclosure objective, rather than specifying particular items that are required to be disclosed to meet an objective. Actually, in most cases, the IASB expects to list only non-mandatory items that may enable a preparer to meet the disclosure objective to be provided.

EFRAG notes that the proposed approach introduces a radical change from the existing guidance by making minimum requirements an exception. As illustrated in the application of the proposals to IFRS 13 and IAS 19, items of information will be mandated only if they are deemed always necessary to meeting a specific objective.

The proposed approach would require preparers to determine the information that would meet the needs of users of financial statements, whose perspectives may differ from their own, and to determine and justify that they have met the stated objectives.

EFRAG also observes that different type of users may have different information needs (e.g., equity investors vs lenders) and these needs can vary over time. Assessing the 'common information needs' of a variety of users and the dynamic nature of their needs over time create challenges to preparers, auditors and enforcers.

We are concerned that, absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing. It would also make review of such disclosures and enforcement of the requirements more difficult for auditors and regulators and may ultimately not lead to the intended changes and improvement to information relevance.

Therefore, the success of the proposed approach 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.

Interaction with materiality assessment

EFRAG observes that the ED does not explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality. Although we understand that materiality is an overarching principle and needs not be repeated in each and every IFRS Standard, we consider that it is essential to clarify the interaction between:

(a) the proposed specific principles which are supposed to reflect the 'information 'needs'' of users; and

(b) the concept of materiality which refers to information which omission, misstatement or obscuring '*could reasonably be expected to influence the decisions that the* *primary users of general purpose financial statements make on the basis of those financial statements'.*

EFRAG recommends that the IASB further consider and explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality as this is essential to an understanding of the proposals.

Other comments

EFRAG also suggests that the IASB incorporates the experience from its recent initiatives to foster the use of judgement and the assessment of materiality to assess the effects of its most recently issued Standards which contained objectives for disclosure. Such as IFRS 9 *Financial Instruments*, IFRS 15 *Revenue form Contracts with Customers* of IFRS 16 *Leases*). Some of these new standards have already been applied for several reporting cycles.

EFRAG also recommends that the IASB:

(a) further considers and explains the relationship between the overall and specific disclosure objectives and the concept of materiality, as this is essential to a thorough understanding of the proposals;

(b) when developing objectives for a specific Standard, considers the existing disclosure objectives and requirements in other standards, to avoid inconsistencies or redundancies; and

(c) explains whether and how the objectives serve the stewardship objective of financial reporting.

EFRAG has also considered the application of the proposed approach to IAS 19 *Employee Benefits* ('IAS 19') and IFRS 13 *Fair Value Measurement ('*IFRS 13'*)*.

The Post-implementation Review (PIR) of IFRS 13 identified room for improvements in the disclosures of the Standard although no major weaknesses were identified. Regarding IAS 19, the standard was identified as contributing to lengthy disclosures in some cases whereas the informative value of the disclosures was generally considered adequate. Therefore, providing evidence of the improvements in the information value of the disclosures arising from the application of the proposed approach, will be an essential element to the success of the project. Alternatively, the IASB should consider applying the proposed approach prospectively, when developing new standards.

However, EFRAG considers that it is not in a position to express definitive views on the proposed changes and their expected effects, until we have conducted appropriate outreach and field testing.

In particular, EFRAG notes that the impact of the proposals will depend on the behaviour of the preparers and their appetite to reduce the number of current disclosures. EFRAG always considers it essential that any proposed change to the existing requirements is justified by an appropriate cost/benefit balance. An assessment of the benefits is even more important in this case where the focus is on remedying a possible excess of non-material disclosure. This is in contrast to other Amendments where clear shortcomings in the current requirements justify a change. EFRAG also notes that, in assessing the benefits, it is necessary here to consider also the potential loss of material and relevant information that is currently provided. As expressed above, a critical feature of the revised approach to the disclosure is to define an appropriate set of minimum requirements. Understanding the potential for a loss of information would provide input on such minimum requirements.

EFRAG's detailed comments and responses to all the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Almudena Alcalá, Juan José Gómez, Hocine Kébli, or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix – EFRAG's responses to the questions raised in the ED

Proposed Guidance for developing disclosure requirements in IFRS Standards in future

Notes to constituents – Overall disclosure objectives

2 *The ED proposes a new approach for the IASB to develop disclosure requirements in the future that would:*

(a) *require entities to comply with overall disclosure objectives that describe the overall information needs of users of financial statements;*

(b) *require entities to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements; and*

(c) *identify items of information that, while not mandatory, can be considered in assessing whether and how to meet the overall and specific objectives.*

3 *Entities will need to consider whether the information provided by complying with the specific disclosure objectives meets those overall user information needs. For example, to comply with the overall disclosure objectives in a Standard, an entity might need to provide additional, entity-specific information that is not directly required by the specific disclosure objectives in that Standard. Overall disclosure objectives may also provide context, and incorporate other broad considerations, that entities are required to consider when applying the specific disclosure objectives in an IFRS Standard. For example, the proposed overall disclosure objectives of IAS 19 might incorporate considerations about aggregation and disaggregation specific to the disclosure section of the Standard.*

4 *It is important to note that three IASB members voted against the publication of this ED. They are concerned that applying the proposed guidance will not help to solve the disclosure problem. In particular, in their view, developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items will:*

(a) *increase enforcement challenges;*

(b) *be more burdensome for preparers of financial statements and increase reliance on materiality judgements; and*

(c) *impair comparability for users of financial statements by introducing a more flexible approach to disclosures.*

5 *These IASB members agree that developing disclosure objectives that clearly articulate the information needs that disclosures should satisfy, can assist in addressing the disclosure problem. They agree that the IASB could improve disclosure requirements by adding such objectives to IFRS Standards. However, the approach in the proposed guidance not only adds disclosure objectives but increases the emphasis on the requirement to meet a disclosure objective. In applying that approach, rather than specifying particular items that are required to be disclosed to meet an objective, in most cases, only a non-mandatory list of items that may enable a preparer to meet the disclosure objective would be provided.*

Question 1 – Using overall disclosure objectives

Paragraphs DG5–DG7 of the ED explain how the IASB proposes to use overall disclosure objectives in future.

(a) Do you agree that the IASB should use overall disclosure objectives within IFRS Standards in future? Why or why not?

(b) Do you agree that overall disclosure objectives would help entities, auditors and regulators determine whether information provided in the notes meets overall user information needs? Why or why not?

EFRAG's response

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

EFRAG agrees, in particular, with the proposal to work more closely with users of financial statements and other stakeholders early in the standard-setting process to understand what information users want in financial statements, and to better articulate how the information is intended to be used by those users.

Overall high-level objectives prompt entities to step back and consider, after having addressed all the specific disclosure objectives, whether the information as a whole is appropriate to respond to users' needs.

However, EFRAG considers that a necessary preliminary step is clarification of the role (and therefore the boundaries) of the notes to financial statements. Then it is necessary to ensure that the overall and specific objectives developed at a standard-level are consistent with such role as defined.

EFRAG also recommends that the IASB further considers and explains the relationship between the overall and specific disclosure objectives, and the concept of materiality, to clarify the proposals.

Finally, EFRAG also recommends that, in developing objectives for a specific standard, existing disclosures objectives and requirements in other standards should be considered to avoid inconsistencies or redundancies.

EFRAG encourages the IASB to further consider the interaction between the proposals in the ED and the developments in digital reporting.

Objective- based disclosure requirements

6 EFRAG is generally supportive of the development of disclosure requirements that are based on clear objectives. In its 2012 Discussion Paper *Towards a Disclosure Framework the Notes*[1], EFRAG suggested, in particular, that:

(a) disclosure requirements should be principle-based and must achieve the appropriate level of proportionality to the entity's users' needs and meet a reasonable cost-benefit trade-off in all circumstances;

(b) disclosures need to have objective(s) distinct from other objectives within the Conceptual Framework, specifically from the objectives of recognition, measurement and presentation;

[1] Towards a Disclosure Framework for the Notes (EFRAG – July 2012)

(c) disclosure requirements should be developed and justified with the same level of depth and scrutiny as requirements for presentation, recognition and measurement; and

(d) consistency in the way disclosure requirements are set is necessary, including in the level of granularity.

7 These views were reiterated by EFRAG in its response to the IASB's 2017 *Principles of disclosure* Discussion paper[2] where EFRAG supported the further exploration of how to achieve a more holistic and unified approach in developing disclosure objectives.

8 EFRAG therefore welcomes the development of a unified and rigorous methodology to draft disclosure requirements (as explained in BC28 to BC47) that

(a) starts with the understanding of the issues with information that users of financial statements currently receive;

(b) understanding what disclosures are required to support the proposed recognition and measurement requirements;

(c) performing a cost-benefit analysis; and

(d) understanding and documenting the effects of disclosure proposals.

Setting up overall disclosure requirements (in addition to specific ones – see our response to Question 2) has the benefit to prompt entities to step back and consider whether the information as a whole meets users' information needs for that topic. For example, high level objectives might lead an entity to provide additional entity-specific information that is not directly captured by a particular specific disclosure objective.

Effect of technology on disclosures

9 EFRAG observes that the ED explicitly considers the effect that technology may have on disclosure requirements.

10 EFRAG observes that developments in technology influence how information is included in financial statements and how such information is used. EFRAG considers that the interaction of objective-based standards (moving away from lists of required disclosures) and electronic reporting might create specific challenges with comparing information at a point in time and over time.

11 In EFRAG's 2012 Discussion Paper, EFRAG emphasised the need to consider the effect of technology on financial reporting in general and on disclosure requirements in particular. It was noted that the organisation of disclosures might be less important as users can dip in and out of the 'digital annual report' to find information that they need, rather than by reading it from front to back. EFRAG observed that developments in technology might influence how much information is included in printed financial statements. In electronic format, there may be less need for disaggregated disclosures, if disaggregation could be achieved by drilling down on the numbers in primary financial statements in a digital format.

12 EFRAG reiterated this view in its 2017 response to the 2017 *Principles of Disclosure* Discussion Paper. Particularly, EFRAG regretted that the IASB project had not considered in greater depth the implications of digital reporting and other technological developments on the roles of the primary financial statements and the notes and the distinction between them. DP append noted that the IASB appeared to implicitly limit its focus to today's fixed layout-type reports.

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[2] EFRAG's comment letter in response to the IASB's Discussion Paper DP/2017/1 Disclosure Initiative - Principles of Disclosure (October 2017)

13 With the increasing use of technology to prepare and to access information (use of XBRL reporting, European Single European Format), the interaction of objective-based standards (moving away from lists of required disclosures) and electronic reporting should be considered.

14 Paragraph BC 212 of the Basis for Conclusion assumes that IFRS Taxonomy elements would be created by the IASB for each item of information specifically mentioned in the IFRS Standards to meet an objective. However, for items of information that are not in the examples listed in the IFRS Standards, the IASB expects companies to add entity-specific extensions for electronic reporting.

15 Although, in the context of the European regulation currently block tagging for disclosures is required, EFRAG observes that, at a global level, users of the IFRS Taxonomy may be affected as it requires the detailed tagging of the footnotes to the financial statements.

16 This is because tagging disclosures that will be less standardised and comparable as well as include more entity-specific narrative information could be challenging. Information tagged in a certain way will be deemed comparable and might be used without further analysis as to the real level of comparability.

17 EFRAG considers that a multiplication of entity specific extensions would defeat the whole purpose of XBRL reporting: standardised tagging. EFRAG notes that the request for structured, standardised report data for a variety of different purposes comes from several stakeholders.

18 EFRAG therefore urges the IASB to further consider the interaction between the proposals in the ED and the developments in digital reporting.

Defining the role of the notes

19 EFRAG considers that a necessary preliminary step would be to clarify the role (and therefore the boundaries) of the notes to financial statements (e.g., information that should be provided in financial statements and information that belongs outside financial statements). In both its 2012 Discussion Paper and its response to the IASB *Principles of Disclosure Discussion Paper*, EFRAG considered that defining the role (and therefore the boundaries) of the notes was essential in addressing the disclosure problem and improving the relevance of disclosures.

20 EFRAG observes, in that respect, that in the exposure draft *General Presentation and Disclosures*, the IASB has consulted on a proposed role[3] for the Notes. The outcome of this project is not known. We encourage the IASB to consider the interaction between the two projects and the effects of the future deliberations. In particular, consideration should be given as to how the overall and specific objectives proposed in the ED can be related to the role and objectives of the notes as a whole.

Interaction with materiality assessment

21 EFRAG observes that the ED does not explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality.

[3] The proposed role of the notes is to:(a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and (b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements

22 In that regard, EFRAG observes that paragraph DG4 of the ED states that the IASB '*to the extent possible, avoid making generic or overarching references to materiality in the disclosure sections of individual IFRS Standards. This is to reinforce materiality as an overarching concept that applies across all Standards, including all disclosure requirements'.*

23 Although we understand that materiality is an overarching principle and needs not be repeated in each and every IFRS Standard, we consider that it is essential to clarify the interaction between:

(a) the proposed specific principles which are supposed to reflect the 'information 'needs'' of users; and

(b) the concept of materiality which refers to information which omission, misstatement or obscuring '*could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements'.*

24 Information that 'users need' to understand a specific element may vary depending on the type of users and the information they require, may not necessarily overlap with the information that influence their decisions if omitted or misstated.

25 Some of the specific disclosure objectives may not be material in the specific context of an entity. It is therefore important to provide guidance on how entities assess the materiality of the specific objective in their specific context.

26 Additionally, the qualitative aspects of materiality, when applied to disclosures, could also be outlined. For instance, disclosures about transactions with related parties or about management compensation may be material even if the related amounts are low.

27 EFRAG recommends that the IASB further consider and explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality as this is essential to an understanding of the proposals.

Interaction with the overarching disclosure objectives in IAS 1

28 EFRAG observes that the ED does not explain the relationship between individual disclosure objectives in IFRS Standards and the general disclosure requirements in IAS 1.

29 In that regard, EFRAG observes that paragraph DG5 of the ED states that the IASB '*will use overall disclosure objectives within individual IFRS Standards to provide a narrower, more Standard-specific focus than the objectives of general purpose financial reporting and financial statements in the Conceptual Framework for Financial Reporting and IAS 1 Presentation of Financial Statements.*

30 We consider that it is essential to clarify the interaction between the individual disclosure objectives in IFRS Standards and the requirements in IAS 1, specifically in relation to judgements (apart from those involving estimations) and sources of estimation uncertainty.

Notes to constituents – Specific disclosure objectives

31 Within the context of an individual IFRS Standard, specific disclosure objectives will describe the detailed information needs of users of financial statements. It will also require an entity to disclose all material information that enables such an understanding by a user, as described in the objectives, to be achieved.

32 Specific disclosure objectives will require entities to apply judgement effectively because, in order to comply with the objectives, entities will need to assess whether the information provided is sufficient to meet detailed user information needs.

33 *The specific disclosure objectives will be accompanied by a separate paragraph that provides context by explaining how the suggested information is employed by users of financial statements.*

34 *By focusing the compliance requirement on specific disclosure objectives, the IASB will require entities to apply judgement and focus their disclosures on information that is material in their own specific circumstances. By identifying specific items of information in the standards the approach is expected to help to achieve some form of comparability of information between entities for which similar information is material.*

Question 2 – Using specific disclosure objectives and the disclosure problem

Paragraphs DG8–DG10 of the Exposure Draft explain how the IASB proposes to use specific disclosure objectives in future.

(a) Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would help entities apply judgements effectively when preparing their financial statements to:

(i) provide relevant information;

(ii) eliminate irrelevant information; and

(iii) communicate information more effectively?

Why or why not? If not, what alternative approach would you suggest and why?

(b) Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would provide a sufficient basis for auditors and regulators to determine whether an entity has applied judgements effectively when preparing their financial statements? Why or why not?

EFRAG's response

EFRAG welcomes the development of specific disclosure objectives to help entities identify which information they have to disclose. If disclosure objectives are expressed too generically, they are not helpful in determining the specific information to disclose. A combination of overall and specific disclosure requirements is therefore desirable.

EFRAG supports a more holistic and unified approach in developing disclosure objectives to avoid inconsistencies or duplications across IFRS Standards. In developing disclosure objectives for a standard, consideration should be given to:

- **the existing disclosure requirements in other IFRS Standards; and**
- **the overarching objectives of general-purpose financial statements within the Conceptual Framework and IAS 1.**

EFRAG understands that the specific objectives are developed based on the decision-usefulness of the information for users of financial statements. However, EFRAG invites the IASB to explain whether and how the objectives serve the stewardship objective of financial reporting.

Setting up specific disclosure objectives

35 EFRAG considers that if disclosure objectives are expressed too generically, they are not helpful in determining the specific information to disclose. Conversely if the objectives are defined too narrowly, they may be considered as rules. In its comment letter in response to the *Principles of Disclosure* DP, EFRAG considered that a combination of overall and specific disclosure requirements would be desirable.

36 General disclosure requirements have the benefit to act as 'catch all' objectives. These prompt entities to step back, after having addressed all the specific disclosure objectives, to consider as a whole the disclosures and whether such information provided meets users' information needs for that topic.

37 For example, high level objectives might lead an entity to provide additional entity-specific information that is not directly captured by a particular specific disclosure objective. This may also help to provide a link to the overarching objectives of general purpose financial reporting within the *Conceptual Framework* and IAS 1.

38 EFRAG also supports a more holistic and unified approach in developing disclosure objectives to avoid inconsistencies or duplications across IFRS Standards. In developing disclosure objectives for a Standard, consideration should be given to

(a) the existing disclosure requirements in other IFRS Standards; and

(b) the overarching objectives of general-purpose financial statements within the *Conceptual Framework* and IAS 1.

Identification the needs of users

39 EFRAG agrees that the consideration of the usefulness of the disclosures for users' decision making is key in developing disclosure requirements.

40 As a matter of fact, in its 2017 comment letter in response to the IASB's Principles of Disclosure DP, EFRAG stated that '*in undertaking its standard-level review the IASB should 'further consider how users currently use the information in the financial statements and to explore whether there is any information that would be helpful but is not currently provided in the financial statements. In doing so, that the IASB should consider the balance between benefits of the information to users and costs to preparers of providing that information*.''

41 However, EFRAG observes that general purpose financial reporting serves a double objective to:

(a) provide information for primary users' needs about the resources of the entity to assess an entity's prospects for future net cash inflows; and

(b) how effectively and efficiently management has discharged their responsibilities to use the entity's existing resources (e.g., stewardship).

42 We observe that no mention is made of the stewardship objective in the proposed ED and how that objective could be met through the proposed overall and specific objectives.

43 EFRAG considers that it is essential that the ED better explains how it has determined that the application of the proposed overall and specific objectives would result in providing information that how is useful to users in both:

(a) Making decisions relating to providing resources to the entity; and

(b) Assessing management's stewardship.

Notes to constituents – level of judgement

44 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 by:

(a) using the prescriptive language 'shall' to require entities to comply with disclosure objectives in the Standards; and

(b) typically using less prescriptive language when referring to items of information to meet the disclosure objectives.

45 The IASB considered the following alternative ways to describe the items of information using less prescriptive language:

(a) 'to meet the disclosure objective in paragraph [x], an entity shall consider disclosing…';

(b) 'to meet the disclosure objective in paragraph [x], an entity will normally disclose…'; and

(c) 'while not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph [x]…'.

46 In deciding which language to propose, the IASB considered which formulation would be most effective in signalling to entities the need to apply judgement and shift the focus away from applying disclosure requirements like a checklist.

47 The IASB concluded that the language 'while not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph [x]' would be the most effective option of those considered, in helping to address the disclosure problem.

48 The IASB observed that, provided disclosure objectives are specific enough to be operational and enforceable requiring entities to comply with disclosure objectives would require all material information necessary to meet the objective to be disclosed. Consequently, specifying that items of information are not mandatory should not result in material information being omitted. Instead, using this language to describe items of information would help entities to fully understand specific disclosure objectives and determine which information is material and therefore has to be disclosed.

49 Placing the compliance requirement on disclosure objectives and not on items of information would require an entity to apply similar judgement to that required by paragraph 31 of IAS 1. In the IASBs view, this approach would reinforce the materiality requirements in IAS 1 while also reducing the perceived compliance burden that stakeholders told the Board was a cause of the disclosure problem.

Question 3 – Increased application of judgement

Paragraphs DG2–DG3 and DG8–DG13 of the Exposure Draft explain why, in future, the IASB proposes to:

(a) use prescriptive language to require an entity to comply with the disclosure objectives.

(b) typically use less prescriptive language when referring to items of information to meet specific disclosure objectives. An entity, therefore, would need to apply judgement to determine the information to disclose in its circumstances.

This approach is intended to shift the focus from applying disclosure requirements like a checklist to determining whether disclosure objectives have been satisfied in the entity's own circumstances.

Paragraphs BC188–BC191 of the Basis for Conclusions describe the likely effects of this approach on the behaviour of entities, auditors and regulators towards disclosures in financial statements. Paragraphs BC192–BC212 of the Basis for Conclusions describe the likely effects of this approach on the quality of financial reporting, including the cost consequences of the approach.

(a) Do you agree with this approach? Why or why not? If not, what alternative approach do you suggest and why?

(b) Do you agree that this approach would be effective in discouraging the use of disclosure requirements in IFRS Standards like a checklist? Why or why not?

(c) Do you agree that this approach would be effective in helping to address the disclosure problem? For example, would the approach help entities provide decision-useful information in financial statements? Why or why not?

(d) Do you agree that this approach would be operational and enforceable in practice? Why or why not?

(e) Do you have any comments on the cost of this approach, both in the first year of application and in subsequent years? Please explain the nature of any expected incremental costs, for example, changes to the systems that entities use to produce disclosures in financial statements, additional resources needed to support the increased application of judgement, additional audit costs, costs for users in analysing information, or changes for electronic reporting.

EFRAG's response

EFRAG continues to hold the view, expressed in its 2017 comment letter in response to the *Principle of Disclosure* Discussion Paper, that developing and testing such an approach has merits and should be encouraged as we support the reduction of detailed disclosure checklists.

We however note that the proposed approach introduces a radical change from the existing guidance by making minimum requirements an exception.

EFRAG considers that by focusing the objectives on the provision of entity-specific information and a higher level of judgement, the proposals will likely create implementation challenges and tensions with comparability. EFRAG believes that users of financial statements consistently highlighted the importance of both entity-specific information and comparable information.

The proposed approach would require preparers to determine the information that would meet the needs of users of financial statements, whose perspectives may differ from their own. Preparers would need to determine and justify that they have met the stated objectives.

EFRAG also observes that different type of users may have different information needs (e.g., equity investors vs lenders) and these needs can vary over time. Assessing the 'common information needs' of a variety of users and the dynamic nature of their needs over time create further challenges.

We are concerned that, absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing. It may also make the review by auditors and enforcement by regulators more difficult. It may ultimately not lead to the intended changes and improvements to information relevance.

EFRAG therefore recommends that a comprehensive outreach and field testing of the proposals will be necessary to better identify the operational challenges for preparers, enforcers and auditors. The purpose of such field testing would be to identify potential implementation and application concerns for the two selected IFRS Standards. Furthermore, it would determine whether there is a need for additional guidance, as well as to estimate the costs and benefits of the proposals. It is essential that the field test activities:

- **involve representatives of enforcers and auditors**
- **consider the diversity of the situation of reporting entities and does not focus only on the most advanced or best resourced ones;**
- **include feedback from an array of users.**

EFRAG recommends that, in developing disclosure objectives, the IASB supplements its proposed approach by researching whether examples of good reporting practices already exist under the existing requirements (as was done in its 2017 Better Communication Case Studies)

EFRAG observes that many of the proposed disclosures in the ED to meet the disclosure objectives, are already provided on a voluntary basis by some entities. EFRAG considers it beneficial to show real examples of good disclosures and to identify the underlying objectives of these disclosures. Then, the IASB is more likely to demonstrate the merits and feasibility of its proposals and be effective in triggering actual changes to address the disclosure problem.

EFRAG also suggest that the IASB incorporates the experience from its recent initiatives to foster the use of judgement and the assessment of materiality (in particular, the *Materiality Practice Statement* and the changes to the definition of Materiality), to assess the effects of its most recently issued Standards which contained objectives for disclosure.

Increased level of judgement

50 EFRAG continues to hold the view, expressed in its 2017 comment letter in response to the Principle of Disclosure Discussion Paper, that developing and testing such an approach has merits and should be encouraged. EFRAG supports the reduction of detailed disclosure checklists.

51 EFRAG considers and accepts that the exercise of judgement is inherent in principle-based standards and objective-based disclosure requirements.

52 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. The language used in the standard has to be prescriptive enough to encourage a certain level of comparability but not too prescriptive to discourage the use of judgement when providing relevant information.

53 EFRAG considers as a key statement, the assessment made by the IASB in paragraphs BC25-BC26 that 'disclosure objectives need to be 'specific enough to be operational and enforceable' and 'not result in material information being omitted''. If objectives are too detailed, they run the risk of being considered like checklists or rules and if they are too broadly set, they run the risk of not being operational or enforceable.

54 Placing the compliance requirement on disclosure objectives and not on items of information would require an entity to apply materiality judgements to a universe of possible disclosures to meet a set objective. That might be challenging and burdensome for preparers.

55 The proposed approach would require preparers to determine the information that would meet the needs of users of financial statements, whose perspectives may differ from their own. Preparers would need to determine and also justify that they have met the stated objectives.

56 EFRAG also observes that different type of users may have different information needs (e.g., equity investors vs lenders) and these needs can vary over time. For instance, users' information needs about the effects of employee benefit plans may vary in a low interest rate environment compared to a high interest one. Assessing the 'common information needs' of a variety of users and the dynamic nature of their needs over time create challenges.

57 We are concerned that, absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing. It would also and make review by auditors and enforcement by regulators more difficult. It may ultimately not lead to the intended changes and improvements to information relevance.

58 Another aspect to consider are challenges from such an approach for the information technology systems. Such systems are mainly developed for standardised information. To adjust the information systems of reporting entities to deliver entity-specific disclosure information might be costly and bear the risk of providing incorrect or unreliable information.

59 In EFRAG's view, objectives must explain 'why' and 'for what purpose' specific disclosures have been introduced, thus fostering the exercise of judgement as to whether the disclosure is useful in the specific circumstances of an entity.

60 EFRAG considers that a comprehensive field testing of the proposals will be necessary to better identify the operational challenges for preparers, enforcers and auditors. The purposes of such extensive field testing would be to:

(a) identify potential implementation and application concerns;

(b) determine whether there is a need for additional guidance; and

(c) estimate the costs and benefits of the proposals.

61 In doing so, the IASB could assess the effects of recently issued IFRS Standards which contain objective-based disclosures together with lists of items of information to meet the objectives (such as IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Custome*r or IFRS 16 *Leases*). Although the disclosure requirements in these standards were not developed strictly using the proposed drafting guidance in the ED, there might be some similarities in the application and enforcement challenges.

62 A key aspect to consider in reviewing the effects of the proposals is the question of their costs. EFRAG considers that costs would inevitably be associated with the exercise of judgement based on the needs of users of financial statements rather than applying a checklist of disclosure requirements. For example, entities reporting quarterly, would have to assess which disclosures to provide for each reporting period. Incremental costs may include the need for increased involvement by senior management and increased audit costs relating to the application of judgement. After initial application, entities would need to continue to apply judgement as a significant number of judgements are likely to remain in subsequent periods.

Expected effectiveness of the approach in addressing the 'disclosure problem'

63 In its 2017 comment letter, EFRAG assessed that the 'disclosure problem' described in the IASB DP was multifaceted, included behavioural aspects and that the requirements in IFRS Standards are not the only root cause.

64 EFRAG considered that not all factors identified as contributing to the disclosure problem can be addressed by the IASB alone. Other stakeholders, such as preparers, auditors and regulators, each have a shared interest in fostering the improvement of disclosures.

65 Encouraging the behavioural changes needed to improve communication effectiveness, therefore, requires the involvement of other stakeholders, such as preparers, auditors and regulators.

66 Maintaining a structured dialogue with these stakeholders is therefore paramount. EFRAG considers it essential that the IASB sustain its education efforts during and after the ED's consultation period and beyond.

67 EFRAG recommends that, in developing disclosure objectives, the IASB considers the existing examples of good reporting practices, under the existing requirements.

68 EFRAG observes that many of the proposed disclosures in the ED to meet the disclosure objectives, are already provided on a voluntary basis by some entities.

69 EFRAG considers it beneficial to show real examples of good disclosures, in combination with minimum requirements and with the identification of the underlying objectives of these disclosures. With such an approach, the IASB is more likely to demonstrate the merits and feasibility of its proposals and be effective in triggering actual changes to address the disclosure problem. This could also be helpful in developing a set of comparable disclosure minimum requirements that could be supplemented by more entity-specific disclosures to meet the overall and specific objectives.

IASB's various initiatives to foster the exercise of judgement

70 EFRAG observes that the IASB has undertaken several initiatives to foster the exercise of judgement in preparing general purpose financial statements (including the notes):

(a) In September 2017, the IASB issued IFRS Practice Statement 2 *Making Materiality Judgements* aiming at promoting a behavioural change and encourage greater application of judgement;

(b) In October 2018, the IASB amended its definition of 'material' aiming introducing in particular in the definition the concept that material information should not be obscured by immaterial one (applicable 1 January 2020); and

(c) In February 2021, the IASB issued '*Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2)' intended to help preparers in deciding which accounting policies to disclose.

71 Some of the above guidance is already applicable and companies are expected to have applied them in one or more reporting cycles by the time the IASB considers the feedback from its ED consultation and decides on the direction of the project. We encourage the IASB to assess the effects of the above-mentioned guidance and in particular whether it had the expected effects in addressing the disclosure problem.

Notes to constituents – Items of information to promote the use of judgement

72 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.

73 The IASB will explicitly link every item of information included in the disclosure section of an IFRS Standard to one or more specific disclosure objectives. This is meant to provide clarity about the relationship between the specific disclosure objectives and items of information. This will, therefore, help entities to make effective judgements about whether information is material.

74 The items of information are meant to help entities apply judgement and determine how to satisfy the specific disclosure objective. As a result, an entity may need to disclose one, some or all of the items of information identified in the standard. An entity may also need to disclose information in addition to that identified in the standard to meet the detailed user information needs described in the specific disclosure objectives.

75 *At times, the IASB may identify information that, if material to an entity, is always needed to meet the detailed information needs of users of financial statements described in the specific disclosure objective. In these cases, the IASB will, in the first instance, aim to develop a disclosure objective that is specific enough to make clear what information would satisfy the objective. If that is not possible, the IASB will use prescriptive language to require disclosure of a particular item of information.*

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

The IASB proposes to use the following less prescriptive language when identifying items of information: 'While not mandatory, the following information may enable an entity to meet the disclosure objective'. Paragraph BC19–BC26 of the Basis for Conclusions describe the IASB's reasons for this language and alternative options that the IASB considered.

Do you agree that the proposed language is worded in a way that makes it clear that entities need to apply judgement to determine how to meet the specific disclosure objective? If not, what alternative language would you suggest and why?

EFRAG's response

EFRAG agrees that prescriptive language should be used for disclosure objectives.

EFRAG also agrees 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') is self-explanatory. The language is also preferable to the alternatives considered by the IASB in paragraphs BC21 which would place a 'compliance burden' on entities. Entities would need to demonstrate that they had considered each item of information regardless of whether that item was ultimately disclosed.

However, EFRAG considers 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.

EFRAG also considers that the proposed non-prescriptive language introduces a lot of flexibility in disclosure requirements and may ultimately impair comparability. Language used in a standard has to be prescriptive enough to encourage a certain level of comparability. In this regard explaining the objective of disclosure requirements is essential but not enough to result in comparable information.

Although EFRAG supports the reduction of detailed checklist of disclosures, we do not support the classification of certain disclosure requirements as non-mandatory; or making minimum requirements an exception as proposed. We consider that the challenge is for the IASB to strike the correct balance between a tier of always-required disclosures (that ensure a minimum level of comparability) and objectives to mandate additional entity-specific disclosures.

We refer to our response to the previous questions regarding the need to field-test the proposals and to learn from the experience from recently issued standards with objective-based disclosure requirements.

Finally, EFRAG invites the IASB to use consistent language across IFRS Standards when referring to information that is suggested (but not required) to meet a disclosure objective.

76 EFRAG agrees that the proposed expression ('*while not mandatory the following information may enable an entity to meet the specific disclosure objective …*') is self-

explanatory and clear that judgement is required determine how to meet the specific disclosure objective.

77 EFRAG agrees that this expression is preferable to the alternatives considered by the IASB as discussed in paragraphs BC21 and following (such as ‘an entity shall consider disclosing’ or ‘an entity will normally disclose’).

78 These alternatives could be understood to place a ‘compliance burden’ on entities, as to comply with such proposals, an entity would need to demonstrate that all items, whether ultimately disclosed or note, had been considered. This could raise the risk or lead some entities to consider the items of information as a checklist as it may be easier for them to disclose all items of information rather than justifying non-disclosure.

79 However, EFRAG considers that the proposed use of less prescriptive language when referring to items of information, may be more burdensome for preparers of financial statements by increasing the reliance on materiality judgements. It would also impair comparability for users of financial statements by introducing a more flexible approach to disclosures.

80 EFRAG observes that paragraphs DG13 of the ED states that ‘*at times the [IASB] may identify information that, if material to an entity, is always needed to meet the detailed information needs of users of financial statements described in the specific disclosure objective. In these cases, the [IASB] will, in the first instance, aim to develop a disclosure objective that is specific enough to make clear what information would satisfy the objective. If that is not possible, the [IASB] will use prescriptive language to require disclosure of a particular item of information’*.

81 EFRAG observes that the proposed approach increases the emphasis on the requirement to meet a disclosure objective, rather than the required disclosure of particular items. In most cases, it is expected by the IASB to result in only a non-mandatory list of items that may enable a preparer to meet the disclosure objective to be provided.

82 Although EFRAG supports the reduction of detailed checklist of disclosures, we do not support that requiring specific items of information would be by exception.

83 As mentioned in paragraph 78 and 79 above, the proposed approach places a significant burden on preparers to determine which information would meet the needs of users and to justify that they have met the stated objectives.

84 We are concerned that, absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing and make review by auditors and enforcement by regulators more difficult. It may ultimately not lead to the expected changes and information improvements. Confronted with an excessive level of judgement, some preparers may be tempted to continue to provide the same disclosures as before or use the lists of non-mandatory examples as a new checklist.

85 As illustrated in the application of the proposals to IFRS 13 and IAS 19, EFRAG considers that some disclosures may be always needed to meet the overall and specific objectives and should be required when this is the case.

86 Therefore, we consider that the challenge is down to the IASB being able to strike a right balance between a tier of mandatory disclosures (that ensure some level of comparability) and objectives to mandate additional entity-specific disclosures. The field testing of the proposals on IAS 19 and IFRS 13 will be crucial in that respect, as to whether a right balance has been reached between the two tiers of disclosures.

87 Finally, EFRAG invites the IASB to ensure that consistent language is used across IFRS Standards.

88 EFRAG notes for example different in existing IFRS Standards:

(a) 'may include, but is not limited to…' (e.g., IFRS 16 B49 to B52); or

(b) 'could include' (IFRS 16 paragraph 59).

89 Similarly, the current project to revise the *Management Commentary Practice Statement* considered the expression 'could include'.

90 EFRAG recommends that, in assessing the effects of the ED, the IASB consider whether the language in IFRS 16 referred to above has created implementation issues.

Question 5 – Other comments on the proposed Guidance

Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the IASB proposes to develop disclosure requirements in IFRS Standards in future applying the proposed Guidance. Paragraphs BC188–BC212 of the Basis for Conclusions explain the expected effects of any disclosure requirements developed using the proposed Guidance.

Do you have any other comments on these aspects? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

EFRAG's response

EFRAG welcomes the development of a unified and rigorous methodology to draft disclosure requirements (as explained in BC28 to BC47) with the same level of depth and scrutiny as requirements for presentation, recognition and measurement. EFRAG takes no issue with the methodology presented in the ED.

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.

IASB's proposed steps to develop objectives and disclosure requirements

91 As explained previously, EFRAG welcomes the development of a unified and rigorous methodology to draft disclosure requirements (as explained in BC28 to BC47) with the same level of depth and scrutiny as requirements for presentation, recognition and measurement.

92 EFRAG notes that the proposed methodology to develop disclosure requirements (which starts with an understanding of the issues at stake, understanding users' needs, performing a cost-benefit analysis and documenting the effects of the proposals) is similar to the way the IASB generally develops measurement and recognition requirements under its existing due process. EFRAG supports the fact that the proposed approach will be both flexible (each step needs not be done in sequence) and iterative so as to adapt to different circumstances.

93 EFRAG observes that, in the Basis for Conclusions, the IASB explains that it expects that the '*disclosure requirements developed, using the proposed Guidance, would significantly affect the behaviour of preparers of financial statements, auditors and regulators. Specifically, the IASB expects that the ED will promote the application of judgement in deciding what information to disclose, and how to effectively communicate that information; and be difficult to apply like a checklist, because entities would be required to comply with a disclosure objective rather than to disclose particular items of information*'.

94 Not all factors identified as contributing to the disclosure problem can be addressed by the IASB or the IASB alone as other stakeholders, such as preparers, auditors and regulators, also have a shared interest in fostering the improvement of disclosures. As explained in our response to Question 3, the 'disclosure problem' is multifaceted and includes behavioural aspects; and that the requirements in IFRS

Standards are not the only root cause. Encouraging behavioural changes is needed to improve communication effectiveness but it requires the involvement of other stakeholders to be effective.

Proposed amendments to IFRS 13 *Fair Value Measurement* applying the proposed Guidance

Notes to constituents – Overall Objective

95 Paragraphs 100 -101 of the ED state that an entity shall disclose information that enables users to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

96 This information shall enable users of financial statements to understand:

(a) *the significance of those classes of assets and liabilities for the entity's financial position and performance;*

(b) *how their fair value measurements have been determined; and*

(c) *how changes in those measurements could have affected the entity's financial statements at the end of the reporting period.*

97 An entity shall consider the level of detail necessary to satisfy the disclosure objectives and ensure that relevant information is not obscured by the inclusion of insignificant detail.

Question 6 – Overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC62–BC73 of the Basis for Conclusions describe the IASB's reasons for proposing the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? If not, what alternative objective do you suggest and why?

EFRAG's response

EFRAG generally agrees that the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition as proposed by the IASB could be useful for preparers. This will help them understand the information needs of primary users of financial statements in relation to fair value measurement. Finally, it will allow preparers to reassess whether the information provided satisfies both specific and overall needs of users.

EFRAG notes that the extent of the effects of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information they provide. EFRAG will form a view on the proposed approach after collecting more evidence about the possible impacts of this approach.

98 EFRAG considers that the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition as proposed by the IASB could be useful for preparers. This will help them understand the information needs of primary users of financial statements in relation to fair value measurement. Finally, it will allow preparers to reassess whether the information provided satisfies both specific and overall needs of users.

99 In the Post-implementation Review (PIR) of IFRS 13[4] feedback received by EFRAG, users noted that they needed information to assess whether the techniques and inputs used to estimate fair value are reasonable and consistent with their own expectations. According to the outcome of the PIR, the most important disclosure objectives are to ensure that users of financial statements are able to understand:

(a) the fair values disclosed;

(b) how it was determined; and

(c) the techniques and inputs that are significant to the entity's fair value measurements and give rise to uncertainty in those measurements.

100 As explained in our response to Question 3, the disclosure problem, and the issues with the lack of use of materiality judgement are multifaceted and include behavioural aspects. EFRAG is not persuaded by the proposals in the ED on IFRS 13, which increase the level of judgement and may not have the desired outcome. Furthermore, it may result in a loss of information as there is a risk that the reduced list of disclosures may constitute a new 'checklist' even when the information is not material in the entity's circumstances. Finally, preparers may decide not providing other entity-specific and relevant information if these are not included in the minimum list.

101 However, EFRAG considers that the objective should explain why specific items of information are required and how they are used by the primary users of financial statements, rather than replacing the requirements themselves.

102 EFRAG notes that the PIR of IFRS 13 completed by the IASB in 2017 did not result in the need to revise the standard. Furthermore, users are overall satisfied about the information that they receive (also refer to the results of EFRAG's PIR survey as set out in paragraphs 123 to 126). EFRAG also notes that many of the current disclosure requirements would become, under the proposed approach, voluntary, depending on the judgement exercised by the management in defining how to meet the disclosure objectives.

103 EFRAG will form a final view on the proposed approach after collecting more evidence about the possible impacts of this approach from the field-test and other outreaches and comprehensive evidence obtained from academic literature. EFRAG notes that the extent of the effect of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information they provide.

104 EFRAG's preliminary view is that an appropriate cost benefit analysis is essential before considering a change in the current requirements, given that the PIR generally reflected that IFRS 13 is working in a satisfactory way, with some room for improvement. Therefore, a thorough evaluation of the benefits of a structured and more entity-specific approach to the disclosures compared a possible reduction in the relevant information needed by users and provided currently is necessary.

105 As noted by the IASB, users also say that the disclosures often contain detailed information about immaterial fair value measurements. This contrasts with cases where limited information is available about the fair value measurements that are material to the entities' financial statements. These disclosures are also costly for entities to prepare.

[4] EFRAG - Summary of comments received from European constituents PIR IFRS 13. (September 2017)

106 EFRAG also notes that IFRS13, applied since 2013, already included high-level disclosure objectives, EFRAG considers that it is necessary to field-test this new approach where companies should make judgements by explaining why information is important to users and how users might use information in their analysis.

107 The current disclosure requirements focus on information that helps users assess:

(a) the ***valuation techniques and inputs*** used to develop those measurements; as well as

(b) for recurring level 3 items the ***effect of the measurements on profit or loss or other comprehensive income*** for the period (paragraph 91 of IFRS 13).

108 The new disclosure requirements focus on information that enables users of financial statements to evaluate the entity's exposure to ***measurement uncertainties*** (paragraph 100 of the ED).

109 EFRAG is not persuaded that the proposals in the ED would be enough to trigger behavioural changes and deter entities from applying a checklist approach (see also our response to the Question 3 on the drafting guidance methodology).

110 Some respondents to the PIR also mentioned that requiring detailed disclosures would be the best way to help users of financial statements understand the subjectivity of Level 3 fair value measurements. Such measurements are estimated using unobservable inputs that have a significant effect on such measurement. EFRAG also considers that detailed information about Level 3 fair value measurements is only relevant to users if the transactions involving those financial instruments, are material.

111 Some respondents also considered that detailed information about some Level 2 fair value measurements would be relevant to users of financial statements.

112 Lastly, EFRAG agrees that overall disclosure objective for defined fair value measurements should aim for the entities to understand the overall information needs of users of financial statements. However, EFRAG observes that there seem to be an inconsistency between the ED and the snapshot published by the IASB as educational material as the overall disclosure objective in the snapshot refers to investors instead of users. The consistency of the term is important to the extent that according to the conceptual framework an investor is one type of user but not the only one.

Notes to constituents – Specific objective for assets and liabilities measured at fair value.

113 For assets and liabilities measured at fair value, the ED considers four specific objectives that require that the information provided shall enable users to understand:

(a) *the amount, nature and other characteristics of assets and liabilities and how those characteristics relate to categorisation in the fair value hierarchy;*

(b) *the significant techniques and inputs used in determining fair value measurements;*

(c) *alternative fair value measurements using inputs that were reasonably possible at the reporting period end; and*

(d) *the significant reasons for changes in the fair value measurements during the reporting period.*

Question 7 – Specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC74–BC97 of the Basis for Conclusions describe the IASB's reasons for proposing the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition and discuss approaches that the IASB considered but rejected.

(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? Why or why not? If not, what changes do you suggest?

(b) Do you agree that the proposed specific disclosure objectives would result in the provision of information about material fair value measurements and the elimination of information about immaterial fair value measurements in financial statements? Why or why not?

(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.

(d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.

EFRAG's response

EFRAG agrees that faithful representation of fair value measurement includes an explanation of the uncertainties inherent in that measurement and the possible range of values.

Specific disclosure objectives could help entities to understand the specific needs of primary users of financial statements. Thus, these objectives may reduce the complexity of the Standard.

114 EFRAG agrees with how the ED characterises the specific disclosure objectives about assets and liabilities measured at fair value, that is:

(a) the amounts of assets and liabilities within each level of the fair value hierarchy;

(b) the measurement uncertainties;

(c) reasonably possible alternative fair value measurements; and

(d) reasons for changes in fair value measurements.

115 EFRAG agrees in particular that faithful representation of fair value measurement requires the inclusion of an explanation of the uncertainties inherent to that measurement and the possible range of values.

116 EFRAG firstly observes that the current IFRS 13 contains a combination of high-level disclosure objectives and a list of minimum disclosures that are labelled as 'always required' (subject only to materiality considerations). It also does not provide guidance for preparers when exercising judgement beyond the minimum requirements such as for specific additional (or alternative) disclosures that would be relevant in their specific circumstances.

117 EFRAG is cognisant that some entities experienced challenges in understanding the IFRS 13 disclosure objectives and some considered the information fair value measurement to be excessive. Specific disclosure objectives could help entities to understand the specific needs of primary users of financial statements. Thus, these objectives may reduce the complexity of the Standard.

118 EFRAG also received feedback that, where entities have to disclose the fair values of their financial instruments, the existing detailed requirements about Level 3 measurements are excessive (in particular for corporate entities that are not financial institutions). As entities often provide that information even when not material to their specific circumstances.

119 EFRAG notes (both from its consultation on the PIR of IFRS 13 and from discussion with its advisory groups) that some respondents consider the detailed fair value disclosures currently provided by some non-financial entities (in particular for level 3 valuations) not always material and potentially obscuring other material information. These respondents understood the need for financial institutions to disclose such detailed fair value measurement disclosures but recommended that the IASB targets simplified fair value disclosures for non- financial entities. EFRAG considers that the application of the proposed requirements would reduce or eliminate that non-useful information.

Notes to constituents – Information to meet the specific disclosure objectives for assets and liabilities measured at fair value

120 The ED includes a mix of items of information that entities are required to disclose and others that, while not mandatory could be considered in meeting the objectives.

121 For assets and liability measured at fair value, paragraphs 105, 109, 111 and 116 describe the items of information that are required:

(a) *the fair value measurement for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3). [Paragraph 105]*

(b) *whether it uses the policy choice exception in paragraph 48 when measuring the fair value of a group of financial assets and financial liabilities [Paragraph 109]*

(c) *for recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the alternative fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, using inputs that were reasonably possible at the end of the reporting period. [Paragraph 111]*

(d) *for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, an entity shall disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements. [Paragraph 116]*

122 Paragraphs 106, 110 and 113 and 117 describe various items of information that while not mandatory, could be considered in assessing whether the objective is met:

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

Paragraphs BC74–BC97 of the Basis for Conclusions describe the IASB's reasons for proposing the items of information to meet the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss information that the IASB considered but decided not to include.

(a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

EFRAG's response

EFRAG agrees that entities should be required to disclose information which enables users of financial statements to understand: (i) the amount, nature and other characteristics of each class of assets and liabilities, (ii) the significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities, and (iii) the significant reasons for changes in the fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition.

However, as mentioned in our responses to the first questions in this RFI regarding the methodology, EFRAG also questions the likely effectiveness of non-mandatory information. EFRAG therefore recommends that the IASB further investigates the effective applicability of such non-mandatory information.

Specifically, EFRAG is concerned that while users may use information about alternative fair values, as the proposal refers to *all* items that are fair valued on a recurring basis, this would increase the burden on preparers disproportionately.

EFRAG agrees 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 recommends to the IASB to investigate further the practical application of the disclosure requirements.

123 In EFRAG's survey on the 2017 PIR of IFRS 13 the following percentage of user respondents considered the specified information as very useful or useful:

Information provided	**% of users**
Quantitative information about significant unobservable inputs used	91%
Description of valuation techniques and inputs	82%
Description of the valuation processes	82%
Level 3 reconciliation of opening and closing balances	73%
Sensitivity to changes in significant unobservable inputs	45%

124 Other comments received from users included:

(a) In relation to the impact of aggregation and generic disclosures, most respondents indicated that information that is not entity specific impaired the usefulness of the disclosures;

(b) Some users indicated that sensitivity analyses and liquidation curves could be useful where financial instruments are linked to the enterprise value. Instruments with an equity linkage often have a range of outcomes linked to an enterprise value with preference structures which create paybacks which are non-linear. Users indicated that current sensitivity disclosures do not provide this information in a useful and understandable manner;

(c) Some users recommended distinguishing realised gains from unrealised ones for Level 1 and 2 fair value measurements as is required for Level 3 as this could be useful for the determination of distributable reserves; and

(d) Some users recommended that gains and losses of a different nature should not be aggregated.

125 During the same process, 15 non-users indicated that the disclosures of Level 3 fair value measurements are overall moderately useful. However, some respondents indicated that the aggregation of disclosures impaired the usefulness of information. Preparers indicated that compiling the disclosures was costly and time consuming.

126 Respondents also considered that the following disclosures could be helpful:

(a) Values of the unobservable parameters in order to understand the assumptions used; and

(b) Information on the quantitative interaction of unobservable parameters because joint sensitivity parameters could help in understanding whether or not sensitivities are additive.

Mandatory disclosures

127 EFRAG generally agrees that entities should be required to disclose:

(a) the fair value measurement hierarchy (level 1, 2 or 3) for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition;

(b) whether it uses the exception in paragraph 48[5] of IFRS 13, for measuring the fair value of a group of financial assets and financial liabilities; and

(c) a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements of level 3 items.

128 EFRAG considers that for assessing how fair value measurements affect an entity, one needs to understand what is being measured. In the PIR some users mentioned that for gains and losses of a different nature should not be aggregated for usefulness purposes. For that reason, EFRAG agrees to a specific disclosure objective to focus on the amount, nature and other characteristics of items in the fair value hierarchy for *assets and liabilities within each level of the fair value hierarchy*.

129 EFRAG considers it appropriate for an entity not to disclose every technique and input used but consider that information about *measurement uncertainties associated with fair value measurements* should be provided. This includes information about the significant techniques and inputs to the fair value measurements which give rise to uncertainty in those measurements. This approach is consistent with paragraph 127 of IAS 1.

130 The IASB is proposing in the ED to require disclosure about alternative fair value measurement for recurring fair value measurement. EFRAG notes that users may find information about *alternative fair value measurements* useful but that this proposal would vastly extend the population for which similar information is currently provided. Currently, level 3 items are in several industries, mainly financial institutions, the smallest group in the fair value hierarchy while level 2 items are the vast majority. Such required disclosures for this population would therefore increase the burden on preparers significantly. Therefore, considering the low perceived usefulness this information scored in its 2017 survey, EFRAG is not convinced about the trade-off between costs and benefits for this proposed requirement in several industries. In addition, disclosing the range of alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period (paragraph 113 b of the ED) would raise issues of understandability.

131 The IASB expects an entity to apply judgement to determine which items of information are relevant in its circumstances regarding measurement uncertainties associated with fair value measurements and reasonably possible alternative fair value measurements. The IASB also expects entities assessing which reasons for changes are significant to consider all reasons for changes on a relative basis and apply judgement to determine which of those reasons to disclose.

132 EFRAG agrees that judgements and information about assumptions taken are useful, and entities should have some flexibility to determine the level of disclosure that most appropriately reflects users' needs. However, if more emphasis is placed on making disclosures entity specific, then inevitably there has to be some ground given up on achieving comparability. In this respect, EFRAG encourages the IASB to assess, in its field testing, the interaction between those two principles.

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[5] That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received (a) to sell a net long position (e.g., an asset); (b) for a particular risk exposure or paid to transfer a net short position (e.g., a liability); and (c) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

133 EFRAG acknowledges that often significant judgement is required to determine whether an item is in level 2 or level 3. EFRAG therefore encourages the IASB to include in the objectives that an entity should disclose how it applies judgement when determining the boundary between level 2 and level 3 as this is not clearly captured in the current disclosure objectives. The governance disclosures proposed in paragraph 138 will also provide useful insights in this regard.

Reasons for changes in fair value measurements

134 EFRAG considers it important to understand why the amount of fair value measurements has changed during the period and the *reasons for such changes in fair value measurements*. Understanding how fair values have changed during the period helps users to identify important items to include in their analyses. In addition. EFRAG does not consider useful that entities disclose information about all reasons for changes in all fair value measurements across all levels of the fair value hierarchy.

135 For that reasons, EFRAG agrees on the focus of the specific disclosure objective on reasons for changes that are significant to fair value measurements. EFRAG expects entities to assess which reasons for changes are significant on a relative basis and apply judgement to determine which of those reasons to disclose.

Non-mandatory disclosures

136 EFRAG also notes the IASB's proposal to develop non-mandatory information to meet each specific disclosure objective. EFRAG questions the likely effectiveness of such non-mandatory information and recommends that the IASB investigates further the effective applicability of such non-mandatory information.

137 EFRAG agrees to the inclusion of items of information that, while not mandatory, may enable an entity to meet the specific disclosure objective about measurement uncertainties associated with fair value measurements. The IASB observed that the information necessary to meet the objective would vary depending on an entity's particular fair value measurements and how the entity has performed those measurements. EFRAG expects an entity to apply judgement to determine which items of information are relevant in its circumstances. However, EFRAG is concerned about the expansion of the population for which such disclosures may be required as explained in paragraph 130 above.

138 EFRAG notes that there has been criticism against the sensitivity disclosures of significant unobservable inputs in level 3 as it may not provide a complete picture about measurement uncertainty. However, EFRAG is not convinced that this necessitates a change to disclosures about the range of fair values that are reasonably possible at the end of the reporting period. For financial institutions specifically, the balance sheet items typically comprise a high number of items and the calculation of a range of alternative values may not be relevant or may require contradicting assumptions. Furthermore, the aggregation of such values for differing instruments (e.g., different types of derivatives) as well as providing a range would be difficult in practice. EFRAG therefore encourages the IASB rather to require disclosures about the governance process around the valuation process the ones proposed in in paragraph 113 of the ED. In addition, EFRAG considers this proposed requirement should be modified or further investigated in field testing as suggested. EFRAG considers sensitivity disclosures as more pertinent than alternative fair values and suggests continuing to require such disclosures.

139 With respect to the portfolio exemption, EFRAG considers the IASB should also consider including specific disclosure objectives relating to the following examples of relevant information:

(a) the impact of portfolio-level adjustments on levelling in the fair value hierarchy;

(b) the nature of the application, e.g., market risk or bid-ask spread; and

(c) the impact on valuations.

Questions to Constituents

140 Do you agree with the EFRAG position that the proposal on the provision of alternative fair values is too burdensome and raises issues of understandability, or do you consider that the benefit to users would outweigh the costs? Please provide an estimate of the additional costs/time required. This can be done by comparing assets and liabilities currently classified as level 3 to those as level 2 or by comparing the estimated workdays currently required by that required under the proposal.

141 Do you have any alternative proposals to provide information that would allow users to evaluate the possible outcomes of the fair value measurements at the end of the reporting period?

Notes to constituents – Specific objective for assets and liability not measured at fair value but for which fair value is disclosed

142 Paragraphs 118-119 of the ED state as a specific objective, that an entity shall disclose information that enables users of financial statements to understand:

(a) *the amount, nature and other characteristics of each class of assets and liabilities (see paragraphs B48–B50) not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes; and*

(b) *how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.*

143 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.

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 BC98–BC99 of the Basis for Conclusions describe the IASB's reasons for proposing 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.

(a) Do you agree that the proposed specific disclosure objective captures detailed user information needs about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes? Why or why not? If not, what changes do you suggest?

(b) Do you agree that this proposed specific disclosure objective would result in the provision of useful information about assets and liabilities not measured at fair value but for which fair value is disclosed in the notes? Why or why not?

(c) Do you agree that the benefits of the specific disclosure objective would justify the costs of satisfying it? Why or why not? If you disagree, how should the objective be changed so that the benefits justify the costs?

(d) Do you have any other comments about the proposed specific disclosure objective?

EFRAG's response

EFRAG agrees that the most useful information about items not measured at fair value but for which fair value is disclosed, is information that enables users to understand the nature and characteristics of such items.

EFRAG agrees with the development of a specific disclosure objective to focus on the amount, nature and other characteristics of items in the fair value hierarchy.

144 EFRAG considers that users need fair value information about some items that are not measured at fair value in the statement of financial position to perform forecasting calculation and analyses. For that reason, the most useful information about items not measured at fair value but for which fair value is disclosed is information that enables users to understand the nature and characteristics of such items.

145 EFRAG agrees with the development of a specific disclosure objective to focus on the amount, nature and other characteristics of items in the fair value hierarchy. EFRAG concurs with the IASB's decision to highlight in the specific disclosure objective that users are interested in how those characteristics relate to the item's categorisation within the fair value hierarchy. Moreover, EFRAG also agrees that an entity does not need to explain the categorisation of each class of assets and liabilities as:

(a) users primarily want to assess the relative subjectivity in the classification of items in the fair value hierarchy. This can be more effectively achieved from good descriptions about the classes of items categorised within each level of the fair value hierarchy than a description of the entity's classification processes; and

(b) narrative information about how an entity determined the level of the fair value hierarchy to which an item belongs is likely to be boilerplate.

146 EFRAG initial view is that some entities would incur incremental costs on initial application of disclosure requirements developed using the proposed guidance. Entities are likely to incur significant costs in the first year, that is likely to persist for each reporting period.

147 EFRAG FIWG members concurred that these costs would relate primarily to the emphasis on applying judgement based on the needs of users of financial statements rather than applying disclosure requirements like a checklist. For example, financial institutions report quarterly and the cost to apply judgement each period could be excessive. Incremental costs may include the need for increased involvement by senior management and increased audit costs relating to the application of judgement. After initial application, entities would need to continue to apply judgement as for many entities a significant number of judgements are likely to remain for subsequent periods.

Notes to constituents – Information to meet the specific objective for assets and liabilities not measured at fair value but for which fair value is disclosed.

148 Paragraph BC100 of the Basis for Conclusions explains that the ED proposes one specific disclosure objective for items not measured at fair value but for which fair value is disclosed that are similar one of the specific objectives described for asset and liability measured at fair value (see paragraphs 142 a) and b) above).

149 Therefore, entities are required to disclose the same information for that objective that is: the fair value measurement for each class of assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).

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

Paragraph BC100 of the Basis for Conclusions describes the IASB's reasons for proposing the items of information to meet the specific disclosure objective about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.

(a) Do you agree that entities should be required to disclose the proposed items of information in paragraph 120 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet the specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

EFRAG's response

EFRAG agrees with the 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 agrees 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.

150 EFRAG agrees requiring entities 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.

151 EFRAG concurs that without this information, a user of financial statements would be unable to understand the carrying amounts of assets and liabilities within each level of the fair value hierarchy. However, EFRAG notes that it may be difficult for financial institutions to provide information around the subjectivity of the hierarchy assessment except on a very aggregated level. It is not clear how useful this would be to users on such an aggregated basis.

152 EFRAG agrees 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.

Question 11 – Other comments on the proposed amendments to IFRS 13

Do you have any other comments on the proposed amendments to IFRS 13 in this Exposure Draft, including the analysis of the effects (paragraphs BC214–BC215 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

EFRAG's response

EFRAG considers that transition requirements should be further investigated by the IASB. EFRAG is concerned about the potential burden of this new disclosure requirements arising from the ED.

EFRAG also questions where the new disclosure requirements result in a new disclosure approach whether comparative information should be provided in the financial statements.

153 EFRAG considers that the application of a brand-new approach for disclosure requirements will be more challenging for 'legacy' standards like IFRS 13 which have been applied for many reporting cycles by entities. As explained in our questions to the questions on the methodology, EFRAG suggests that the proposals on IFRS 13 should be subjected to extensive field testing. This would assist to better identify the operational challenges for preparers, enforcers and auditors. Furthermore, such extensive field testing would help to identify potential implementation and application concerns, as well as any need for additional guidance, and to assess the costs and benefits of the proposals as well as challenges for information systems.

154 EFRAG considers that transition requirements should be further investigated by the IASB. EFRAG is concerned about the potential burden of this new disclosure requirements arising from the ED. There should be an analysis whether the proposed changes are a complete re-write of the disclosure requirements with higher levels of judgement as well as significant implementation costs and time.

155 EFRAG also questions where the new disclosure requirements result in a new disclosure approach whether comparative information should be provided in the financial statements.

Proposed amendments to IAS 19 *Employee Benefits* applying the proposed guidance

Notes *to constituents – Overall objective for defined benefits plans*

156 The ED explains that the overall disclosure objective for defined benefits plans is to provide information that enables users of financial information to:

(a) *assess the effect of defined benefit plans (DB plans) on the company's financial position, financial performance and cash flows; and*

(b) *evaluate the risks and uncertainties associated with the company's defined benefit plans.*

157 The ED further explains that an entity shall aggregate or disaggregate information provided to meet the disclosure objectives about defined benefit plans set out in this Standard. In doing so, an entity ensures that relevant information is not obscured by either the inclusion of insignificant detail or the aggregation of items that have substantially different features or characteristics.

158 An entity shall:

(a) *consider the nature, risks and other characteristics of its defined benefit obligation. For example, an entity might distinguish between amounts owed to active members, deferred members and pensioners; and*

(b) *assess whether disclosures should be disaggregated to distinguish plans or groups of plans with different risks.*

Question 12 – Overall disclosure objective for defined benefit plans

Paragraphs BC107–BC109 of the Basis for Conclusions describe the IASB's reasons for proposing the overall disclosure objective for defined benefit plans.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans? If not, what alternative objective do you suggest and why.

EFRAG's response

EFRAG generally agrees that the overall disclosure objective for defined benefit plans in the ED could be useful for preparers. This will help entities to understand the overall information needs of users of financial statements in relation to defined benefit plans.

EFRAG notes that the extent of the effects of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information provided. EFRAG will form a view on the proposed approach after collecting more evidence about the possible impacts of this approach.

EFRAG also believes that the examples of features an entity could use to disaggregate information provide useful information to preparers. However, EFRAG observes that paragraph 147B of the ED repeats guidance about aggregation of information and obscuring material information which is already contained in IAS 1 *Presentation of Financial Statements*. In this regard, having guidance repeated in different places may affect consistent application across IFRS Standards.

159 EFRAG generally agrees that the overall disclosure objective for defined benefit plans could be useful for preparers. This will help entities to understand the overall information needs of users of financial statements in relation to defined benefit plans. It will also allow them to assess whether the information provided to satisfy specific needs of users also satisfies their overall needs.

160 Having an overall objective set up in this way on defined benefit plans can prompt entities to step back and consider, after having addressed all the specific disclosure objectives, whether the information as a whole is useful.

161 For example, an entity may need to disclose additional information if material risks, and uncertainties associated with an entity's defined benefit plan, not captured by the specific disclosure objectives, could affect the entity's primary financial statements.

162 EFRAG considers that the proposed overall disclosure objective focuses rightly on the impact that defined benefit plans have on financial position, financial performance and cash flows, and on their risks and uncertainties. This anchoring on the information presented in the primary financial statements may increase the overall understandability of the information by identifying the impact of the plans on the financial statements during the period. It may also help users to evaluate the risks and uncertainties associated with the plans.

163 EFRAG notes that the extent of the effects of the changes will depend also on the behaviour of the preparers and their appetite for a reduction of the information they currently provide. EFRAG will form a view on the proposed approach after collecting more evidence about the possible impacts of this approach.

164 EFRAG considers that careful judgement on the level and basis of aggregation/disaggregation is essential to meet the disclosure objectives about defined benefit plans set out in the ED. Users of financial statements need the information to be sufficiently granular especially in those cases where defined benefit plans are significant and have a significant impact on its financial performance and cash flows.

165 In this respect, we consider that the examples of features an entity could use to disaggregate information provide useful information to help entities identify methods of disaggregation. In addition, we consider elevating the status of the guidance on aggregation/disaggregation by including it in the section discussing the overall objective section emphasizes the importance of the matter.

166 EFRAG observes that paragraph 147B of the ED repeats guidance about aggregation of information and obscuring material information which is already contained in IAS 1 *Presentation of Financial Statements*. The IASB could reconsider whether having the guidance repeated in different places is the most effective way of achieving consistent application.

167 Lastly, EFRAG agrees that overall disclosure objective for defined benefit plans should aim for the entities to understand the overall information needs of users of financial statements. However, EFRAG observes that there seem to be an inconsistency in terminology between the ED and the snapshot[6] as the overall disclosure objective in the snapshot refers to "investors" instead of "users". The consistency of terminology is important to the extent that according to the conceptual framework an investor is a type of user but also include lenders and other creditors.

[6] The snapshot was published by the IASB as educational material.

Notes to constituents – Specific objectives for defined benefits plans

168 The ED states that the specific objectives of disclosures for defined benefits plans is to disclose information that enables users of financial statements to understand:

	Specific objectives
Amounts in the primary financial statements relating to defined benefit plans	- *the amounts, and components of those amounts, arising from defined benefit plans during the reporting period in the statements of financial position, financial performance and cash flows.*
Nature of, and risks associated with, defined benefit plans	- *the nature of the benefits provided by the defined benefit plans;* - *the nature and extent of the risks, in particular the investment risks, to which the defined benefit plans expose the entity;* - *and strategies that the entity has in place to manage the defined benefit plans and the identified risks*
Expected future cash flows relating to defined benefit plans	- *the expected effects of the defined benefit obligation recognised at the end of the reporting period on the entity's future cash flows and the nature of those effects.*
Future payments to members of defined benefit plans that are closed to new members	- *the period over which payments will continue to be made to members of defined benefit plans that are closed to new members.*
Measurement uncertainties associated with the defined benefit obligation	- *the significant actuarial assumptions used in determining the defined benefit obligation.*
Reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans	- *the significant reasons for changes in the amounts recognised in the statement of financial position that relate to the defined benefit plans from the beginning of the reporting period to the end of that period.*

Question 13 – Specific disclosure objectives for defined benefit plans

Paragraphs BC110–BC145 of the Basis for Conclusions describe the IASB's reasons for proposing the specific disclosure objectives about defined benefit plans, and discuss approaches that the IASB considered but rejected.

(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about defined benefit plans? Why or why not? If not, what changes do you suggest?

(b) Do you agree that the proposed specific disclosure objectives would result in the provision of relevant information and the elimination of irrelevant information about defined benefit plans in financial statements? Why or why not?

(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.

(d)	Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.

EFRAG's response

EFRAG agrees that the proposed specific disclosure objectives capture the correct aspects needed by users in relation to defined benefit plans. However, with respect to the specific disclosure objectives relating to 'nature of, and risks associated with, defined benefit plans', EFRAG observes that the ED refers broadly to the 'nature' of the benefits or the risks without defining the term. EFRAG is concerned that, if not tailored more specifically, the ED may not improve substantially the lengthy narrative information about defined benefit plans already provided by some entities and that may result in boiler-plate information.

EFRAG considers that introducing specific disclosure objectives can assist entities to exercise judgement in assessing how to meet the information needs of the primary users of financial statements.

At this stage, EFRAG is not in a position to assess whether the benefits will outweigh the related costs to implement the proposals. EFRAG will conduct field tests to form a view. EFRAG also urges the IASB to undertake a comprehensive field testing of the proposals in the ED to better identify the operational challenges for preparers, enforcers and auditors.

169 EFRAG has heard, through its consultative groups that users are generally satisfied with the disclosures of information related to defined benefit plans currently provided. However, some entities provide lengthy narrative information about their defined benefit plans, which users of financial statements do not find particularly useful.

170 Therefore, EFRAG considers that introducing specific disclosure objectives can help entities exercise judgement in assessing how to meet the information needs of the primary users of financial statements.

171 EFRAG agrees that the proposed specific objectives capture the correct aspects needed by users. In particular, users need to understand the amounts reflected in the financial statements, and the risks associated with the plans to understand and evaluate the effects of these plans on the entity's cash flows, performance and position.

172 However, EFRAG observes that the ED refers broadly to the 'nature' of the benefits or the risks without defining the term. The non-mandatory guidance to help an entity to assess meeting the objectives does not shed more light as it refers to 'a description of the nature of the benefits provided by the plans'; and 'a description of plan-specific investment risks'.

173 EFRAG is concerned that, if not tailored more narrowly, the ED may not improve substantially the lengthy narrative information about defined benefit plans currently provided by some entities.

174 In addition, to understand the nature of, and risks associated with, defined benefit plans, it may be also necessary to understand the relationship between the plans and the entity, including features such as financing or risk-sharing aspects. Depending on the relationship, different items of information would be necessary to allow users to understand the relationship between the pension plans and the entity. This becomes more and more important in the context of evolving employee benefit structures. Hybrid plans are becoming more and more common. Therefore, it might be advisable to develop specific disclosure requirements for defined contribution plans. This would also prevent incomplete information from being given for hybrid plans. However, the development of specific disclosures for such plans would not solve entirely the limits that IAS 19 may have in its recognition and measurement requirements for these new types of plans.

Cost and benefits

175 As indicated in paragraph 62, a key aspect to consider in reviewing the effects of the proposals is the question of their cost. At this stage, EFRAG is not in a position to assess the costs and benefits associated with the proposals. EFRAG will conduct field tests on the proposals to form a view.

176 As indicated in our response to the first questions in the ED, EFRAG also urges the IASB to undertake a comprehensive field testing of the proposals in the ED to better identify the operational challenges for preparers, enforcers and auditors. The purpose of such extensive field testing would be to:

(a) identify potential implementation and application concerns;

(b) determine whether there is a need for additional guidance; and

(c) assess the costs and benefits of the proposals including changes to the information technology systems.

177 EFRAG's initial assessment is that entities might incur incremental costs on initial application of the ED as it proposes a complete rewriting of the requirements and entities will need time to understand and implement the changes. Also exercising judgement, rather than applying a disclosure requirement checklist add an additional burden on preparers. Incremental costs may include the need for increased involvement by senior management and increased audit costs relating to the exercise of judgement. In addition, many entities already have systems in place to collect the information needed for the disclosures (e.g., subsidiaries reporting in the context of consolidated figures). It is expected that entities would continue using legacy systems to collect all the information currently collected, before making any judgements around the reduction in disclosures. Therefore, the costs in connection with the exercise of judgements may be in addition to the costs of obtaining the recurrent information. However, as indicated above, EFRAG will need to conduct field testing activities.

Notes to constituents – Information to meet specific objectives for defined benefits plans

178 The ED includes a mix of items of information that entities are required to disclosure and items of information that, while not mandatory could be considered.

179 For defined benefit plans, paragraphs 147F and 147V describe the items of information that are required and include:

(a) *the amount of the defined benefit cost included in the statement of profit or loss, identifying its components, including current service cost, past service cost, gain or loss on settlement, and net interest on the net defined benefit liability;*

(b) *the amount of the defined benefit cost in the statement presenting comprehensive income, identifying its components, including actuarial gains and losses and return on plan assets excluding amounts included in (a);*

(c) *the amount of the net defined benefit liability (asset) in the statement of financial position, identifying its components, including fair value of the plan assets, present value of the defined benefit obligation, and the effect of the asset ceiling;*

(d) *the deferred tax asset or liability arising from the defined benefit plans (or a cross-reference to where that information is disclosed elsewhere in the financial statements);*

(e) *the amounts in the statement of cash flows, identifying their components, including contributions by the entity into the defined benefit plans; and*

(f) *a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the net defined benefit liability (asset). Detailed reasons for changes that might be appropriate include are in paragraph 147V.*

180 Paragraph 147M indicates that an entity provides information about the expected cash flow effects of its defined benefit obligation recognised at the end of the reporting period to meet the disclosure objective in paragraph 147J. However, an entity may provide information about the expected future cash flow effects for the defined benefit plan as a whole. This means, without differentiating between those that meet the defined benefit obligation recognised at the end of the reporting period and other expected future cash flows, if such information would better meet the disclosure objective.

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

Paragraphs BC110–BC145 of the Basis for Conclusions describe the IASB's reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans, and discuss information that the IASB considered but decided not to include.

(a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 147F, 147M and 147V of the [Draft] amendments to IAS 19? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objectives?

(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

EFRAG's response

EFRAG agrees that information included in paragraph 147F is required to be disclosed as the defined benefit plan amounts recognised in the primary financial statements would always be necessary to meet the specific disclosure objective. This includes the components of such amounts recognised.

EFRAG also agrees that information included in paragraph 147V should be required to be disclosed. Such a quantitative reconciliation that explain reasons for changes in the amounts recognised in the statement of financial position for these plans could be more understandable for users than a qualitative description. EFRAG's view is 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. For some types of obligation this information may be crucial, for others, it may not.

With respect to information about actuarial assumptions, EFRAG is 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.

EFRAG considers that the sensitivity analysis to significant actuarial assumptions should be regarded as mandatory.

Required disclosures

181 EFRAG agrees with the IASB that information about the amounts relating to defined benefit plans recognised in the primary financial statements, and the components of those amounts, would always be necessary to meet the specific disclosure objective. In addition, we welcome the illustrative Example 1 to IAS 19 that illustrate how an entity might comply with the specific disclosure objective as it will help entities to develop the required disclosures.

182 The ED introduces a new obligation to present, upfront, a quantitative 'executive summary of the plans. In EFRAG's view, this has the potential to improve the effectiveness of communication. EFRAG therefore, supports the addition of this upfront executive summary as it is often difficult and time-consuming for users to obtain a clear understanding of the effects of defined benefit plans on the primary financial statements.

183 EFRAG agrees that information included in paragraph 147F is required to be disclosed for the reasons explained in paragraph 181 and 182 above. EFRAG also agrees that information included in paragraph 147V is required to be disclosed as a quantitative reconciliation. This would explain reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans and could be more understandable for users than a qualitative description that might not satisfy their needs.

Information about future cash flows

184 The ED requires entities with defined benefit plans to disclose information that enables users to understand the expected effects of the defined benefit plans on the entity's future cash flows. For plans that are closed to new members, the ED will require entities to focus its disclosures on communicating the period for which such plans will continue to affect the entity.

185 EFRAG has received feedback that information about the expected effects of defined benefit plans on an entity's future cash flows is useful for users' analyses. EFRAG's view is 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. For some type of obligation this information may be crucial, for others may not.

186 For plans that are closed to new members, EFRAG has also received feedback that it might be difficult to provide cash flow information. Therefore, such a requirement needs to be tested in practice.

187 EFRAG observes that the information in financial statements do not typically provide forward-looking information unless such information relates to the entity's assets or liabilities that exist at the end of the reporting period and is useful to users of financial statements. However, the non-mandatory guidance in the ED on how the objective could be met, typically meets this condition as it relates to information about cash flows of the defined benefit obligation that exists at the end of the reporting period.

188 Such information would include expected future cash flows such as deficit repair payments for funded plans and payments to meet the defined benefit obligation for unfunded plans. EFRAG welcomes the addition of application guidance and illustrative examples on expected future cash flows as it will help an entity to apply judgements and to judge how to meet the specific disclosure objective in different circumstances.

189 EFRAG observes that the question 14 (a) in the ED asks whether the guidance included in paragraph 147M about the expected cash flow effects of defined benefit obligation recognised at the end of the reporting period, should be mandatory. However, EFRAG notes that paragraph BC124 under the section '*Items of information to meet the objective (paragraphs 147L–147M)*' seems to state otherwise, as it indicates that the information in paragraph 147M is not mandatory and is only part of the information to meet the objective. EFRAG also observes that paragraph 147M indicates that 'an entity provides;' and not 'shall provide'; which is the usual way the ED signals obligations throughout the ED. EFRAG recommends that the IASB clarifies its intention that information in 147M is mandatory or not.

Non-mandatory disclosures

190 The approach is intended to help entities shift the focus from applying a disclosure checklist to considering whether the disclosure objectives have been satisfied based on the entity's circumstances. This may cause operational challenges for preparers, enforcers and auditors. For example, entities might use information identified as non-mandatory as a checklist to meet the specific objectives rather than finding alternatives, as it may be easier and more straightforward. Also, non-mandatory information might be used as disclosure requirements by regulators or auditors; making them *de facto* required information. Therefore, as indicated in paragraph 60, a comprehensive field testing of the proposals will be necessary to better identify the operational challenges for preparers, enforcers and auditors.

Information about actuarial assumptions

191 Currently IAS 19 requires entities to disclose the significant actuarial assumptions they use to determine the present value of their defined benefit obligation. Paragraph 147Q of the ED requires entities to disclose 'information that enables users of financial statements to understand the significant actuarial assumptions used in determining the defined benefit obligation'. To do so, the ED proposes to include items of information that, while not mandatory, may enable an entity to meet the specific disclosure objective about measurement uncertainties associated with the defined benefit obligation.

192 By providing a non-exhaustive list of items, the intention of the ED is for an entity to provide selected information based on judgement about the assumptions that are significant to the measurement of the defined benefit obligation. However, EFRAG is concerned that entities either continue with their current disclosures or provide immaterial information about assumptions. This may affect the relevance of information as well as the comparability across entities.

Information about sensitivity / uncertainty

193 IAS 19 currently requires entities to disclose a sensitivity analysis for each significant actuarial assumption used to determine the present value of the defined benefit obligations. EFRAG is aware that preparing assumption by assumption sensitivity analysis is costly. However, users consider sensitivity analysis quite useful, especially for material assumptions like discount rates or investment returns. The ED proposes the replacement of sensitivity analysis with a broader objective that requires information that enables users of financial statements to understand the significant actuarial assumptions used in determining the defined benefit obligation. This information is intended to help users assess the sources of measurement uncertainty in the entity's determination of the defined benefit obligation. In EFRAG's view it may not be clear what information related to uncertainties entities would need to disclose, besides sensitivity analysis. It seems unlikely that entities could convey information on uncertainties meaningfully without providing a quantitative impact. Therefore, EFRAG considers that sensitivity analysis of significant actuarial assumptions should be regarded as mandatory.

Question to Constituents

194 The IASB decided that the benefits provided by sensitivity analysis would not outweigh the cost to entities of providing that information. Consequently, the IASB decided not to develop a specific disclosure objective about sensitivity of an entity's defined benefit obligation to different assumptions. They consider that the specific disclosure objective in paragraph 147Q of the proposed amendments, will give users a reasonable idea of the range of possible values for the defined benefit obligation. They also consider it would enable users to compare the level of measurement uncertainty in defined benefit obligations between entities.

195 Do you agree with the IASB's proposal that benefits provided by the current sensitivity analysis would not outweigh the cost to entities of providing that information and, therefore, should not be required? Why or why not?

Notes to constituents – Overall objectives for defined contribution plans

196 The IASB proposes in the ED to introduce an overall disclosure objective for defined contribution plans to require disclosing information that enables users to understand the effects of these plans on the entity's financial performance and cash flows.

Question 15 – Overall disclosure objective for defined contribution plans

Paragraphs BC156–BC158 of the Basis for Conclusions describe the IASB's reasons for proposing the overall disclosure objective for defined contribution plans.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined contribution plans? If not, what alternative objective do you suggest and why?

EFRAG's response

ERAG agrees that the proposed overall disclosure objective would result in the provision of useful information as users need information on the effects that defined contribution plans have on an entity's statements of financial performance and cash flows. However, EFRAG would have expected additional disclosure requirements as there are potential risks on these plans that might affect users decision-making process.

197 EFRAG considers that the proposals in the ED would not significantly change information about defined contribution plans.

198 We agree that, for such plans, users need information on the effects that defined contribution plans have on an entity's statements of financial performance and cash flows, as these are unlikely to significantly affect the statement of financial position at the end of the reporting period.

199 Therefore, we agree with the description of the objective that 'an entity shall disclose information that enables users of financial statements to understand the effect of defined contribution plans on the entity's financial performance and cash flows'. This is because IFRS Standards do not specify how entities should present amounts relating to employee benefits in the primary financial statements. Consequently, amounts relating to defined contribution plans may not be separately identified in those statements.

200 EFRAG welcomes that the ED equally emphasises information on the statement of income and on the statement of cash flows as there could be differences between the effect on the statement of financial performance and the effect on the cash flows.

201 We also agree that much of the information needed to satisfy the objective will be already available internally and therefore is not expected to be costly to prepare or impose an excessive burden on companies.

202 However, as there are more and more defined contributions plans, different characteristics may emerge. EFRAG would have expected additional requirements for these plans. For example, there might be regulatory or internal agreements that exist at the reporting date and affect future contributions by an entity under a defined contribution plan scheme. EFRAG is concerned that with the overall objective included in the ED, the potential risks of defined contribution plans might not be captured or sufficiently disclosed.

Notes to constituents – Disclosures objectives for multi-employer plans and defined benefit plans that share risks between entities under common control

203 An entity that accounts for its participation in a multi-employer defined benefit plan as if it were a defined contribution plan or that participates in a defined benefit plan that shares risks between entities under common control and accounts for the contribution payable for the period in accordance with paragraph 41[7] of IAS 19 shall comply with the overall disclosure objective for defined contribution plans in paragraph 196 above. It shall also comply with the specific disclosure objective on the nature of, and risks associated with, defined benefit plans in paragraph 168 above.

[7] This explains that an entity participating in a defined benefit plan that share risks between entities under common control will recognise in its individual financial statements either its part of the net defined benefit cost or a cost equal to their contribution payable for the period. It depends on whether there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan.

204 An entity that accounts for its participation in a multi-employer defined benefit plan as a defined benefit plan or that participates in a defined benefit plan that shares risks between entities under common control and accounts for an allocation of the net defined benefit costs in accordance with paragraph 41 of IAS 19 shall comply with the overall disclosure objective for defined benefit plans (see paragraphs 156-158 above) and all the specific disclosure objective for defined benefit plans (see paragraph 168 above).

Question 16 –Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control

Paragraphs BC159–BC166 of the Basis for Conclusions describe the IASB's reasons for proposing which disclosure objectives should apply for multi-employer plans and defined benefit plans that share risks between entities under common control.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

EFRAG's response

EFRAG agrees that compliance with only the overall disclosure objective for defined contribution plans would not sufficiently communicate the risks to users of the following types of plans for:

a) multi-employer defined benefit plans accounted for as if it were a defined contribution; or

b) defined benefit plans that share risks between entities under common control where the contribution payable for the period is recognised in accordance with paragraph 41 of IAS 19.

However, EFRAG considers that mixing the overall objectives of defined contribution plans with one of the specific objectives of defined benefit plans may create complexity in understanding and applying the requirements. We therefore suggest that the IASB considers including a specific disclosure requirement reiterating the applicable guidance.

205 EFRAG considers that there are two cases to consider regarding multi-employer plans:

(a) multi-employer defined contribution plans which expose the participating entities to similar risks as other defined contribution plans. For these plans EFRAG agree that disclosure should follow the overall disclosure objective applicable to defined contribution plans (discussed in previous question); and

(b) multi-employer defined benefit plan.

206 For the latter, IAS 19 allows entities to account for its participation as if it were a defined contribution plan if the entity has insufficient information to apply defined benefit accounting. Similarly, IAS 19 permits an entity with a defined benefit plan that shares risks between entities under common control to recognise a cost equal to its contribution payable for the period in its separate or individual financial statements.

207 In the two cases above, EFRAG agrees that compliance with only the overall disclosure objective for defined contribution plans would not sufficiently communicate the risks of these types plans to users of financial statements. This is because in the two situations mentioned in paragraphs 206, an entity would be exposed to many of the risks associated with other defined benefit plans. Therefore, compliance with only the overall disclosure objective for defined contribution plans would not sufficiently communicate those risks to users of financial statements. However, such an entity is unlikely to have sufficient information to comply with all the proposed specific disclosure objectives for defined benefit plan.

208 We understand the intention in the ED that, for these two types of plans, the proposed amendments would require these entities to comply with:

(a) the overall disclosure objective for <u>defined contribution plans</u>; and

(b) the specific disclosure objective proposed in paragraph 147G <u>for defined contribution plans</u> that requires an entity to disclose information that enables users of financial statements to understand:

(i) the nature of the benefits provided by the plan;

(ii) the nature and extent of risks, in particular the investment risks to which the plan exposes the entity; and

(iii) the strategies the entity has in place to manage the plans and that associated risks.

209 However, EFRAG considers that mixing the overall objectives of defined contribution plans with one of the specific objectives of defined benefit plans may create complexity in understanding and applying the requirements. We therefore suggest that the IASB considers including, in the section on multi-employer plans and plans under common control, a specific disclosure requirement reiterating the guidance contained in 147G.

Notes to constituents – Overall objectives for other types of employee benefit plans

210 The ED states that the overall objectives of disclosures for other types of employee benefit plans, which include short-term employee benefits, other long-term employee benefits and termination benefits is to disclose information that enables users to understand the effect of short-term employee benefits on the entity's primary financial statements. It should also provide information about the nature of other long-term employee benefits and termination benefits as well as their effect on the entity's financial position, financial performance and cash flows.

Question 17 – Disclosures for other types of employee benefit plans

Paragraphs BC167–BC170 of the Basis for Conclusions describe the IASB's reasons for proposing the overall disclosure objectives for other types of employee benefit plans.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

EFRAG's response

ERAG considers that the proposed overall disclosure objective conveys, with enough details, the main information needs of users about other types of employee benefits

211 EFRAG agrees that, for other types of employee benefits (which include short-term employee benefits, other long-term employee benefits and termination benefits),

users primarily need information about their effect on the primary financial statements (when these effects are material):

(a) For short-term employee benefits – information about the impact on an entity's financial performance and cash flows; whereas

(b) For other longer-term employee benefits and termination benefits – information about the impact on the three primary financial statements.

212 EFRAG agrees the proposed overall disclosure objective communicates sufficiently to users about these types of plans and that adding specific disclosure objectives is not necessary or would require covering too many possibilities.

213 There is a wide variety of long-term employee benefits and termination benefits which may vary in nature. EFRAG agrees that for users of financial statements to assess the effect of employee benefit plans on the financial statements, they need to understand the nature of the benefits promised under the plans.

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

Do you have any other comments on the proposed amendments to IAS 19 in this Exposure Draft, including the analysis of the effects (paragraph BC216 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

EFRAG's response

EFRAG considers that transition requirements should be further investigated by the IASB as there is a potential burden arising from the ED.

EFRAG suggest that the IASB assess whether specific disclosures on emerging pension plans such as hybrid plans should be included. As defined contribution plans might bear certain risks, specific disclosure requirements on such type of plans could be useful and would avoid that certain hybrid plans are not properly disclosed. However, the development of specific disclosures for such plans would not entirely solve the limits of the current IAS 19 requirements for the recognition and measurement of such new types of plans.

214 EFRAG consider that transition requirements should be further investigated by the IASB. EFRAG raises concerns about the potential burden of the new disclosure requirements arising from the ED. There should be an analysis whether the proposed changes end as a complete re-writing of the disclosure requirements with higher levels of judgement and the cost and time to implement it.

215 EFRAG also question whether in the cases where the new disclosure requirement results in a new disclosure approach if comparative information should be provided in the financial statement.

216 In recent years, defined benefit plans 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. The IASB might assess during its outreach events and field-testing activities whether there are specific disclosures for these 'new' pension plans that are not considered in the ED but would help users in their decision-making process. As defined contribution plans might bear certain risks, specific disclosure requirements on such type of plans could be useful and would avoid that certain hybrid plans are not properly disclosed. However, the development of specific disclosures for such plans would not entirely solve the limits of the current IAS 19 requirements for the recognition and measurement of such new types of plans.