

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

## **Disclosure Requirements in IFRS Standards Cover Note**

### **Objective**

- 1 The objective of the session is to approve a final comment letter in response to the IASB's exposure draft Disclosure Requirements in IFRS Standards (The ED).
- 2 The EFRAG Board received a presentation on the progress of the field-testing activities and on the initial feedback from the public events held and other outreach activities at its meeting on 18 November 2021.

### **Background**

- 3 On 25 March 2021, the IASB published [the ED](#) which proposes a new approach for the IASB to develop disclosure requirements and test that approach by applying it to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee benefits*.
- 4 The new approach would require entities to comply with:
  - (a) overall disclosure objectives that describe the overall information needs of users of financial statements; and
  - (b) specific disclosure objectives that describe the detailed information needs of users of financial statements.
- 5 The ED contains draft guidance for use by the IASB when developing disclosure requirements in individual Standards. In applying this guidance, the IASB aims to:
  - (a) enhance investor engagement to ensure the Board has an in-depth understanding of investors' information needs and clearly explains those needs in the Standards;
  - (b) give greater prominence to the objective of disclosure requirements, requiring companies to apply judgement and provide information to meet the described investor needs; and
  - (c) minimise requirements to disclose particular items of information, and instead to help companies focus on disclosing material information only.

### **EFRAG's tentative views in its DCL**

- 6 EFRAG published a [draft comment letter](#) on 11 May 2021 which was open for consultation until 04 January 2022.
- 7 In the letter, EFRAG supported the objective of the project to improve the relevance of disclosures and to develop a more rigorous methodology for the IASB to define objective-based disclosure requirements. However, EFRAG noted a number of challenges as the proposed approach introduces a radical change to the way disclosures are being prepared with a higher level of judgement involved. That includes:

- (a) operational aspects of the new proposed guidance like lack of minimum requirements;
  - (b) balancing the requirements;
  - (c) comparability;
  - (d) auditability and enforceability.
- 8 EFRAG considered the application of the proposed approach to the two tested standards but concluded that it was not in a position to express definitive views on the proposed changes and their expected effects, until EFRAG had conducted appropriate outreach and field testing.

EFRAG outreach and field test activities

- 9 Since the publication of its DLC EFRAG has conducted a wide array of activities including:
- (a) A public consultation of its DCL which ended on 4 January 2022 (see below);
  - (b) A comprehensive field test of the proposals with preparers in close coordination with the IASB staff which results were subsequently discussed at three workshops with small groups of preparers;
  - (c) Four public outreach events;
  - (d) A survey covering especially smaller and medium entities applying IFRS;
  - (e) Interviews with auditors of smaller and medium entities; and
  - (f) Targeted meetings with different groups of stakeholders.
- 10 All outreach and field-testing activities are listed in the appendix A.

**Results of Field testing and other outreach activities**

- 11 Agenda paper 05-03 includes an Annex to EFRAG's final comment letter which provides detailed information about the feedback received from each group of stakeholders EFRAG has reached out to (large and smaller preparers, users, auditors, enforcers).
- 12 In a nutshell, a large majority of participants in the field test and other outreach activities, across all groups of stakeholders, supported EFRAG's tentative views expressed in its DCL:
- (a) Supporting the objective of the project to improve the relevance of disclosures and to develop a more rigorous methodology for the IASB to define objective-based disclosure requirements with closer involvement of users and other stakeholders;
  - (b) Introducing overall and specific objectives explain why disclosures are required and how they are used by users in making their assessments and decisions;
  - (c) However, there is need to maintain a list of required disclosures in addition to the objectives; and in the absent of such a list, the approach would result in application, audit and enforcement challenges.
  - (d) Increased costs may arise from the application of the proposals for both preparers and auditors without a commensurate increase in the relevance of disclosures;
    - (i) The application of the proposed objectives resulted in general in limited changes to the previously disclosed information and preparers were generally able to link most of their existing disclosures to the proposed objectives.

- (ii) However, preparers expressed concerns that although the level of information would not change a lot, the burden of documentation for auditors' or enforcers' purposes would increase, thus leading to significant additional ongoing costs of compliance.
- 13 More information about the feedback on the specific application of the proposed approach to IFRS 13 and IAS 19 can be found in agenda paper 05-04.

**Responses to EFRAG's consultation on its DCL**

- 14 Agenda paper 05-04 provides further detailed information about the feedback from respondents to the DCL consultation.
- 15 At the time of writing the comment letter analysis and presented at EFRAG TEG meeting on 18 January 2022, 20 comment letters have been received in final versions from a wide range of constituents. The main messages received were as follows:
- (a) Respondents generally shared the tentative views expressed in EFRAG's DCL, supporting the objective of the project and the introduction of both overall and specific objectives;
  - (b) Respondents did not generally consider that an objectives-based disclosure approach alone will solve the disclosure problems as there are many factors contributing to the disclosure problem, including behavioural ones;
  - (c) Respondents generally recommended an alternative approach combining overall and specific objectives with a list of mandated disclosures (subject to materiality);

*IFRS 13*

- (d) Respondents agreed in general with the proposed overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition;
- (e) Respondents supported the specific disclosure objectives except alternative fair value measurements and recommended continuing the use of sensitivity analysis;
- (f) Majority of respondents supported the specific disclosure objectives for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed which aligned with EFRAG's view;

*IAS 19*

- (g) Respondents generally supported the overall disclosure objective and the specific disclosure objectives for DBP except for the objective relating to future payments to members of DBP that are closed to new members;
  - (h) Respondents generally agreed that the proposed overall disclosure objective for DCP and other employee benefits would result in useful information. Some recommended to include specific requirements; and
  - (i) Respondents generally supported EFRAG's recommendation that sensitivity analysis should be required for significant assumptions.
- 16 After the comment letter deadline EFRAG received nine additional comment letters. Their input is very consistent with the messages received by the comment letters before the deadline. TEG members were orally updated on this feedback. The input from those comment letters was considered from TEG members at the meeting 18 January 2022.

**EFRAG TEG recommendations / Changes to the EFRAG comment letter**

- 17 At its meetings on 22 December 2021 and 18 January 2022, respectively, EFRAG TEG considered the final feedback from the outreach and field test activities and from the DCL consultation.
- 18 Based on the above, EFRAG TEG unanimously agreed to recommend a final comment letter for the consideration of the EFRAG Board. The main changes compared to the views expressed in the DCL are outlined in the paragraphs below.

*Overall approach*

- 19 EFRAG's final comment letter essentially reiterated the main views expressed in the DCL, in particular:
- (a) Supporting the objective of the project to improve the relevance of disclosures and to develop a more rigorous methodology for the IASB to define objective-based disclosure requirements with closer involvement of users and other stakeholders;
  - (b) Supporting introducing overall and specific disclosure objectives and additional guidance to explain why disclosures are required and how they are used by users in making their assessments and decisions.
  - (c) However, no support for removing required list of items of information to disclose. There is a need to strike the appropriate balance between a set of disclosures that are always required (to ensure a minimum level of comparability), and objectives to elicit additional entity-specific disclosures.
- 20 The main changes compared to EFRAG's draft comment letter include the following:
- (a) Include references to the main results of the extensive outreach and field test conducted by EFRAG in support of the views expressed.
  - (b) Include an Annex to EFRAG's FCL providing a summary of the results from the outreach and field test.
  - (c) Outline the features of EFRAG's proposed alternative approach combining the use of (1) overall and specific objectives; (2) a list of always required disclosures to meet the objectives and (3) additional application guidance and illustrative examples.
  - (d) Emphasise better that addressing the disclosure problem will involve the participation of all concerned stakeholders in their respective roles. In particular the influence of users is essential to trigger changes and invite the IASB to reach out on a broad basis to stakeholders.
  - (e) Emphasise better the role of digital reporting, as it may alleviate the disclosure problem as new technologies and may change the way the information is produced and consumed.
  - (f) Suggest that IASB considers the potential effects of its proposals on connectivity between financial and sustainability reporting and the need to foster such connectivity.

*Application of the proposed approach to IFRS 13 and IAS 19*

- 21 EFRAG's final comment letter includes an explicit mention that EFRAG does not support finalising the amendments to IAS 19 and IFRS 13 as proposed and suggests instead that the IASB first considers first the feedback received in response to its proposed general approach. And in particular EFRAG's suggested alternative approach.
- 22 However, should the IASB decide to proceed with the ED proposals regarding the two Standards, EFRAG makes a number of recommendations which are detailed below.

- 23 For IFRS 13, the final comment letter essentially reiterates EFRAG's initial assessment in the draft comment letter.

*For IAS 19, the final comment letter essentially reiterates the views expressed in the draft comment letter.*

**Question to the EFRAG Board**

- 2 Does the EFRAG Board have comments on the summary of the feedback received and the proposed final comment letter?
- 3 Does the EFRAG Board approve the final comment as contained in paper 05-02 (subject to agreed changes at the meeting)?

**Agenda Papers**

- 24 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 05-02 – Proposed Final Comment Letter; and
  - (b) Agenda paper 05-03 – Annex to proposed EFRAG final comment letter – Summary of outreach and field test.
  - (c) Agenda paper 05-04 – Summary of feedback received from the DCL consultation (background paper)

*Disclosure requirements in IFRS standards – Cover Note*

**Appendix A**

EFRAG conducted a wide range of outreach and field work activities which are listed below. The activities are presented in chronological order:

#	Date	Meeting	Objective
1	03/03/2021	CFSS-TEG meeting	To discuss possible field work activities
2	31/03/2021	EFRAG FIWG	To collect views on the proposals on IFRS 13 disclosure requirements
3	14/04/2021	EFRAG PPAP	To collect views on the proposals on IAS 19 disclosure requirements.
4	21/04/2021	EFRAG TEG + User Panel	To collect UP views on the proposals and field work activities.
5	05/05/2021	EFRAG Board	To approve the publication of the DCL.
6	11/05/2021	EFRAG IAWG	To collect views on the proposals.
7	21/05/2021	ESMA	To collect views on the proposals and discuss enforceability challenges.
8	June to July	Meetings with IVSC and Tegova	To collect views on the proposals.
9	02/06/2021	EPRA	To discuss views on the DCL and attract fieldwork participants
10	02/06/2021	ZIA	To discuss views on the DCL and attract fieldwork participants
11	08/06/2021	AON Hewitt	To discuss views on the DCL and attract fieldwork participants
12	10/06/2021	Accountancy Europe	To discuss EFRAG's initial views and issues on auditability
13	16/06/2021	CFSS-TEG meeting	To discuss field testing and how national standard setters can help.
14	18/06/2021	ASCG Catch-up meeting	Informal discussion with staff
15	24/06/2021	Meeting with Auditors	To publish EFRAG's fieldwork and attract participants
16	30/06/2021	<a href="#">EFRAG's public event</a>	Educational event to promote debate (panel discussions).
17	01/07/2021	EEA	To collect views on the proposals and discuss EFRAG's DCL
18	06/09/2021	Accountancy Europe	Attend discussion on Accountancy Europe comment letter.
19	08/09/2021	CRUF	Attend discussion on CRUF comment letter.
20	September to December	Fieldwork participants	Individual meetings with fieldwork participants to discuss fieldwork results
21	04/10/2021	ESMA	Informal discussion with staff
22	05/10/2021	<a href="#">Outreach Denmark</a>	To collect views on the proposals and discuss EFRAG's DCL. Public meeting.
23	07/10/2021	Outreach Germany	To collect views on the proposals and discuss EFRAG's DCL. Public meeting.
24	10/11/2021	EPRA Update Meeting	To inform EPRA about the fieldwork results of real estate entities.
25	05/11/2021	Workshop with participants (corporates) [Field test]	To discuss fieldwork results among participants.
26	10/11/2021	Workshop with participants (corporates) [Field test]	To discuss fieldwork results among participants.
27	15/11/2021	Workshop with participants (financial institutions) [Field test]	To discuss fieldwork results among participants.
28	16/11/2021	Business Europe	To collect views on the proposals and discuss EFRAG's DCL.
29	18/11/2021	EFRAG Board Meeting	To provide an update of the results of the fieldwork.
30	24/11/2021	European Networking Group (ENG)	To collect views on the proposals and discuss EFRAG's DCL.
31	24/11/2021 and after	Interviews with auditors of small and medium entities applying IFRS	To collect views on the proposals and to discuss 1) readiness of their clients for the proposed approach and 2) impact of the proposals on the audit approach.
32	24/11/2021	EFRAG TEG CFSS	To provide an update of the results of the fieldwork.

*Disclosure requirements in IFRS standards – Cover Note*

33	29/11/2021	Workshop with EFRAG WG users [Field test]	Discuss field-testing results with users to collect further input.
34	29/11/2021	Workshop with EFRAG WG auditors [Field test]	Discuss field-testing results with auditors, actuaries, and participants to collect further input.
35	30/11/2021	UK Endorsement Team	Informal discussion with staff
36	02/12/2021	EFRAG FIWG Meeting	Present field-testing results for IFRS 13 disclosure requirements and collect participant's input.
37	07/12/2021	EFRAG User Panel	Present field-testing results and collect participant's input.
38	07/12/2021	EFRAG IAWG meeting	Present field-testing results and collect participant's input.
39	08/12/2021	EFRAG Pension Plans Advisory Panel	Present field-testing results for IAS 19 disclosure requirements and collect participant's input.
40	10/12/2021	EFRAG Webinar with IASB (and user organisations)	Present field-testing results and collect participant's input. Public meeting
41	14/12/2021	ESMA meeting	Present field-testing results and collect participant's input.
42	17/12/2021	Moody's meeting	Present field-testing results and collect participant's input.
43	21/12/2021	EFRAG TEG	Present field-testing results and collect input from TEG member about tentative changes of EFRAG's DCL.
44	10/01/2022	ESMA	Discuss field-testing results – input from the National competent authorities and conclusions reached by ESMA
45	18/01/2022	EFRAG TEG	Consider feedback to the DCL consultation and recommend a FCL