Proposed EFRAG Comment Letter

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

[XX January 2022]

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.

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 necessarily changing the volume of disclosures. EFRAG welcomes the development of a rigorous methodology to define objective-based disclosure requirements, with the same level of rigour and scrutiny as the 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 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.

Assessment of the Proposed guidance in the ED

EFRAG has conducted extended outreach activities on the approach proposed in the ED including:

- field testing the proposals in the ED with preparers and discussing the outcome in a number of workshops with preparers, users, auditors and actuaries;
- public consultation on EFRAG's draft comment letter; and

- surveying the views of smaller entities and their auditors.

A summary of the findings is provided in the Annex to this Comment Letter.

EFRAG believes that the proposals in the ED may not achieve their intended objective. The evidence obtained shows that developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items of information may likely:

- Be ineffective in addressing the disclosure problem nor result in providing more useful and relevant information and could even result in relevant information being omitted;
- Result in impairing comparability for users of financial statements by introducing a more flexible approach to disclosures;
- Increase enforcement and audit challenges; which in turn could result in preparers failing to provide relevant information and/or could result in the non-mandatory items of information being used as a checklist; and
- Be more costly for preparers and auditors, as it would increase reliance on materiality judgements.

Alternative approach supported by EFRAG

EFRAG considers that the success of the proposed approach in addressing the disclosure problem 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.

EFRAG therefore suggests a less radical approach to address the disclosure problem, whereby the IASB would combine the introduction of overall and specific objectives with a list of items of disclosures always required (subject to materiality assessment) to meet those objectives; required items of information would be linked to one or more specific disclosure objectives. This would be complemented by application guidance describing users' needs and illustrative examples, illustrating how to apply judgements to meet the objectives under various circumstances and supporting preparers, auditors and enforcers to develop a common understanding about the application of objectives-based disclosures.

EFRAG also encourages the IASB, in the next steps of the project, to further engage with the preparer community, the audit profession and regulatory bodies to understand what else needs to be done within those stakeholder groups to ensure that all are ready, willing and able to take a step forward in addressing the disclosure problem.

Other comments

Effects of technology and digital reporting

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

- Digitalisation may help alleviate the disclosure problem that the ED intends to address as digital users of financial information are able to more easily navigate and find the information they are looking for; and
- Objective-based standards moving away from lists of required disclosures create specific challenges for digital reporting (in jurisdictions where detailed tagging of the notes is required).

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.

Role of the notes

EFRAG considers that a necessary preliminary step is a 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.

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.

Interactions with other IASB projects

EFRAG encourages the IASB to assess the effects of the various initiatives undertaken to foster the exercise of judgement in preparing financial statements (including the revised definition of materiality and the Materiality Practice Statement) and whether it had the expected effects in helping entities make materiality assessments (for both qualitative and quantitative aspects) in preparing the notes. The assessment would help the IASB identify where further guidance is needed.

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

(b) Explains whether and how the objectives serve the stewardship objective of financial reporting; and

(c) Considers whether and how to align the proposals in the ED with the ones in the Management Commentary ED issued in 2021. In its comment letter in response to the latter, EFRAG suggested that the IASB considers the outcome of its two ongoing consultations and how to align the language of the two projects.

EFRAG suggests that the IASB further clarifies the status of the proposed drafting guidance, including where the methodology to develop disclosure requirements will be placed and whether it will be subject to future formal consultations.

Lastly, EFRAG encourages the IASB to consider in future standard setting how its proposed disclosure could facilitate connectivity between financial and sustainability reporting.

Application of the proposed guidance to the two tested IFRS Standards

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'*)*.

Consistent with the suggestion to apply an alternative approach combining objectives and mandated disclosure items, EFRAG does not support finalising the amendments to IAS 19 and IFRS 13 as proposed. We suggest that the IASB first considers the feedback received in response to its proposed general approach.

If the IASB decides to follow EFRAG's suggestions on the general approach and decides to apply an alternative approach to IAS 19 and IFRS 13, another set of exposure drafts would be necessary as the IASB would have to consult on the list of mandated disclosures and its interactions with the overall and specific objectives.

Should however the IASB decide to proceed with the ED proposals regarding the two Standards, EFRAG provides detail recommendations to the IAS 19 and IFRS 13 proposals in the Appendix.

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 Juan José Gómez, Hocine Kébli, Sebastian Weller or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

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

Proposed Guidance for developing disclosure requirements in IFRS Standards in future

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 rigour 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 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.

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.

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

- **Digitalisation may help alleviate the disclosure problem that the ED intends to address as digital users of financial information are able to more easily navigate and find the information they are looking for; and**
- **Objective-based standards moving away from lists of required disclosures create specific challenges for digital reporting.**

Objective- based disclosure requirements

1 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 for 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;

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

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

2 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.

3 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

4 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.

5 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

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

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

notes and the distinction between them and noted that the IASB appeared to implicitly limit its focus to today's fixed layout-type reports.

6 The issue of the disclosure overload may be perceived differently if information is provided in electronic format, as disaggregation could be achieved by drilling down on the numbers in digital primary financial statements. This could ultimately enable users to choose the appropriate level of aggregation within a digital format. However, it would not lead to a difference in the amount of information provided between printed and digital financial statements.

7 In the European Union 'digital-friendly' standards have become an important aspect for financial reporting standards adopted. Therefore, it is important that any future IFRS adopted in the EU considers digital reporting. For example, the European Single Electronic Format (ESEF) is seen as a tool that improves comparability both for qualitative and quantitative information. Regulators support it as it improves comparability and efficiency.

8 EFRAG observes that 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.

9 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.

10 Users of IFRS Taxonomy at global level may be affected, as the taxonomy requires detailed tagging of single datapoints in the notes. We note that the European regulation currently only requires 'block' tagging of disclosures although more detailed tagging is encouraged.

11 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.

12 EFRAG therefore encourages the IASB to further consider the interaction between the proposals in the ED and the developments in digital reporting as:

(a) Digitalisation may help alleviate the disclosure problem that the ED intends to address as digital users of financial information are able to more easily navigate and find the information, they are looking for without need to search for it manually -which is where the "disclosure overload" becomes most problematic; and

(b) Objective-based standards moving away from lists of required disclosures create specific challenges for digital reporting. EFRAG observes that developments in technology influence how information is included in financial statements and how such information is consummated.

Defining the role of the notes

13 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.

14 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

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

16 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.'*

17 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.'*

18 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.

19 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.

20 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.

21 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

22 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.

23 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*

[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

financial reporting and financial statements in the Conceptual Framework for Financial Reporting and IAS 1 Presentation of Financial Statements.

24 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 estimates) and sources of estimation uncertainty. The IASB also needs to clarify the interaction between the individual disclosure objectives in IFRS Standards and the general objectives of financial statements as included in IAS 1 and the Conceptual Framework.

Consistency with the Management Commentary Exposure Draft

25 In its comment letter in response to Management Commentary ED ('MC ED'), EFRAG suggested that the IASB reconsiders whether and how to align the proposals in the ED and in the MC ED and address inconsistencies between the two projects:

(a) The ED lists two levels of disclosure objectives (overall objectives and specific objectives), whereas the MC ED provides 3 levels of disclosure objectives (headline objective, assessment objectives and specific objectives);

(b) The ED labels the overall information needs of users as 'overall objective'; whereas the MC ED uses 'headline objective';

(c) The ED addresses these in 'items of information,' whereas the MC ED uses 'key matters' and 'metrics'; and

(d) For items of information that are not mandatory but may help achieve (some) specific disclosure objective(s); the ED uses the wording 'while not mandatory,' the following information may enable an entity to meet the disclosure objective,' whereas the MC ED uses 'could include'.

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

26 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.

27 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.

28 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.

29 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

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

31 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, the IASB should consider the balance between benefits of the information to users and costs to preparers of providing that information*.''

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

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

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

33 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.

34 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.

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

Based on the outreach and field work conducted, 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, auditability, and enforceability. EFRAG notes that users of financial statements have consistently highlighted the importance <u>of both</u> entity-specific information and comparable information.

EFRAG is concerned that, absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing the information needs of users, 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 but result in additional costs (increase in audit costs, increased efforts for preparation and documentation, costs to update systems etc.).

EFRAG suggests a less radical approach to address the disclosure problems whereby the IASB would combine the introduction of overall and specific objectives and the setting of mandated disclosures which would be always required (subject to materiality assessment) to meet the objectives. EFRAG also suggests additional application guidance describing users' needs (as proposed in the ED) and examples illustrating how to apply judgements to meet user needs in various circumstances.

EFRAG suggests 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 and a minimum set of required disclosures.

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. EFRAG considers that a list of mandated disclosures is more likely to capture that aspect than specific disclosures requirements.

Lastly, EFRAG encourages the IASB to assess the effects of the various initiatives undertaken to foster the exercise of judgement in preparing financial statements and whether it had the expected effects in helping entities make materiality assessments (for both qualitative and quantitative aspects) in preparing the notes. The assessment would help the IASB identify where further guidance is needed.

Increased level of judgement

35 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.

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

37 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.

38 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.

39 EFRAG understands that, under the approach proposed in the ED, the IASB would determine the information needs of users to be addressed by the objectives. As noted by the IASB in BC 27, '*the approach in the proposed Guidance would only be successful if the IASB is able to develop disclosure objectives that adequately reflect the needs of users of financial statements and are specific enough to be operational and enforceable'*.

40 EFRAG, however, observes that different types of users may have different information needs (e.g., equity investors vs lenders) and these needs can vary over time depending on the economic or business cycles in which the entity operates. Assessing the 'common information needs' of a variety of users and the dynamic nature of their needs over time create challenges.

41 EFRAG considers that a combination of objectives with a list of mandated disclosures provides a better platform to address the diverse and dynamic nature of users' needs than relying only on objectives; in particular, it would be the role of the minimum requirements to facilitate the relevance of the information over time.

42 EFRAG also noted that the interactions between preparers and the users of their information also provide an opportunity for preparers to assess whether the information they provide remains useful over time and changes in business or economic cycles.

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

43 Based on its extensive outreach and field work activities, EFRAG is concerned that the proposals in the ED may not achieve their intended objective to solve the disclosure problem.

44 EFRAG has conducted extended outreach activities on the approach proposed in the ED including:

(a) field testing the proposals in the ED with preparers and discussing the outcome with preparers, users, auditors and actuaries;

(b) consulting on EFRAG's draft comment letter; and

(c) surveying the views of smaller entities and their auditors.

45 A summary of the findings from the extensive outreach conducted by EFRAG is provided in the Annex to its Final Comment Letter which form an integral part of EFRAG's response to the IASB.

46 These activities have provided evidence that the proposals in the ED may likely not achieve their intended objective to solve the disclosure problem. This is because developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items may:

(a) *Reduce the usefulness* of the information provided if entities used the flexibility introduced by the ED, to no longer provide information that is relevant;

(b) *Impair comparability* for users of financial statements by introducing a more flexible approach to disclosures;

(c) *Be more burdensome and costly* for preparers of financial statements as it would increase reliance on materiality judgements and gives much more discretion to preparers but at the same time opens space to reduce disclosures as the outcome (more or less disclosures will depend on the preparers attitude);

(d) *Increase enforcement and audit challenges* - which in turn could result in preparers failing to provide relevant information - and/or could result in the non-mandatory disclosures being used as a checklist - which could result in preparers providing irrelevant information; and

(e) *Pose challenges to digitalisation* (in jurisdictions where detail tagging of the information in the notes is required).

47 EFRAG is concerned that, absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing the information needs of users, 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.

48 EFRAG considers the success of the proposed approach therefore depends on the IASB striking the appropriate balance between a set of disclosures that are always required (to ensure a minimum level of comparability) subject to materiality considerations, and objectives to elicit additional entity-specific disclosures.

49 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. 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, users and regulators, each have a shared interest in fostering the improvement of disclosures.

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

(b) 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.

Cost associated with the proposals

50 Through its outreach and field work activities, EFRAG has gathered evidence that increased cost will be associated with the proposals (both upon transition and on an ongoing basis) in line with the increased application of judgement which will require preparers, auditors and regulators to use more experienced staff to make the assessments at each closing date. Cost may stem from:

(a) The preparation and control of the disclosure (cost to collect all the information needed, internal control procedures, need to involve more senior staff);

(b) The need to document the judgements made by preparers to decide which information to disclose (but also not to disclose);

(c) The (additional) cost associated with the audit of the disclosures (additional audit procedures, need to involve more senior audit professionals);

(d) The need, in some cases, to change an entity's governance processes over the financial reporting process; and

(e) The need to update systems which are typically constructed using the elements of the mandated disclosures in the existing IFRS Standards.

51 Increased cost may be justified when the results in better information. The field test has provided evidence, in the specific case of the two tested standards, limited information changes were identified from the application of the proposals whereas, participating preparers assessed that they would incur additional costs to document their judgement and additional audit costs.

52 EFRG notes that these costs will likely bring benefits in terms of quality of the financial statements. At the same time the introduction of minimum requirements will help to reduce costs.

53 It was also noted that, absent a list of required disclosures, an entity may have to develop its own internal list of detailed requirements to collect information from its subsidiaries and ask for a wider range of information before assessing at central consolidated level, whether in aggregate this information is material. This would require time and efforts and may result being more costly in comparison to a list of required items of information specified in an IFRS Standard that may help achieve the same outcome at lower costs.

54 Lastly, from an operational standpoint, it may not be feasible operationally for less resourced preparers (i.e., in terms of time and resources) to exercise this judgement at each reporting date. To reduce costs of documenting the judgement exercised, some entities will prefer to disclose all the 'non-mandatory' items of information included in an IFRS Standard, regardless of whether or not these items are needed to comply with a specific disclosure objective.

Alternative approach suggested by EFRAG

55 Based on its outreach and field work activities, EFRAG suggests a 'less radical' approach to address the disclosure problems whereby the IASB would combine the introduction of overall and specific objectives and the setting of a list of required disclosures which would be always required (subject to materiality only) to meet the objectives.

56 Under this proposed approach, the IASB could use the outreach to stakeholders identified in the ED to collect feedback about user information needs, not only to identify disclosures objectives but also to identify a set of disclosure requirements for which the objectives give context and explain why the information is needed. All required items of information should be linked to one or more (specific) disclosure objectives.

57 The proposed approach could be described across the three following content elements:

(a) Overall and Specific disclosure objectives as proposed in the ED;

(b) A list of required items of information that would always be needed to be disclosed in order to meet the disclosure objectives (subject only to that information being material); and

(c) Application guidance describing users' needs (as proposed in the ED) and providing examples illustrating how to apply judgements to meet user needs in various circumstances.

58 EFRAG notes the importance of the application guidance, to illustrate the thought process and help preparers, auditors and enforcers develop a common understanding about the application of objectives-based disclosures. It would support the assessment process to be undertaken by a reporting entity to identify additional information that is needed to meet the disclosure objectives in light of its specific facts and circumstances.

59 EFRAG considers that this alternative approach is more likely to help:

(a) Ensure useful and relevant disclosures even from less sophisticated preparers;

(b) Ensure a certain level of relevance, usefulness, and comparability;

(c) Facilitate digital reporting by allowing the tagging of the list of required information and objectives (in jurisdictions where detail tagging of the information in the notes is required); and

(d) Alleviate potential tensions between preparers and regulators as well as between preparers and auditors.

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

61 EFRAG observes that many of the proposed disclosures in the ED to meet the disclosure objectives, are already provided by some entities.

62 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

63 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.

64 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 particular in helping entities make materiality assessments (for both qualitative and quantitative aspects) for the information in the notes. The assessment would help the IASB identify where further guidance is needed.

Application of the new guidance to new or existing IFRS Standards

65 EFRAG understands that the IASB has not made a decision as to whether the proposed approach in the ED would be applied only to new IFRS Standards (beyond the two tested Standards) or to existing ones. EFRAG considers that; if the proposed approach in the ED was to be finalised, the IASB should consider its resource constraints and project priorities in making a decision as to the scope of the application.

66 EFRAG observes that its proposed alternative approach, combining objectives and required disclosures, would be less disruptive and would allow a prospective and

progressive application without creating substantial inconsistencies between the new and the existing IFRS Standards.

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 ('shall') should be used for disclosure objectives.

EFRAG does not support the proposed expression 'while not mandatory' as it would be challenging and create confusion for preparers and may create tension with auditors and regulators.

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; and**
- **introduces a level of flexibility in disclosure requirements and may ultimately impair comparability.**

EFRAG considers that the 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.

Absent minimum disclosure requirements and confronted with the expression 'while not mandatory' (which is not used anywhere else in the existing IFRS Literature) preparers may run the risk to have two opposite attitudes:

- **either to ignore the information labelled as 'non-mandatory' list as considered to contain voluntary only disclosures; or conversely**
- **use it as a checklist to avoid difficult discussions with auditors and enforcers.**

In both cases, this would likely not contribute to the objectives of the ED to provide more relevant and less irrelevant disclosures.

Instead, and consistently with EFRAG's recommendations that the IASB should maintain a list of required disclosures, EFRAG would suggest that the IASB uses the same language as in current IFRS Standards that is '(an entity) shall disclose…'.

67 EFRAG agrees with the use of prescriptive language for disclosure objectives.

68 However, for items of information EFRAG does not agree with the proposed expression (‘*while not mandatory the following information may enable an entity to meet the specific disclosure objective’*).

69 Although EFRAG supports the reduction of detailed checklists of disclosures, we do not support the classification of certain disclosure requirements as ‘non-mandatory;’ or making minimum requirements an exception as proposed.

70 EFRAG is concerned that if the objectives are not specific enough to be operational and enforceable, the expression ‘while non-mandatory’ might be misunderstood and result in the risk of material information being omitted. In addition, as explained above, it could result in the non-mandatory disclosures being used as a checklist - which could result in preparers providing irrelevant information.

71 EFRAG has received feedback 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 and creates audit and enforcement challenges. It could also impair comparability for users of financial statements by introducing a more flexible approach to disclosures.

72 Absent minimum disclosure requirements and confronted with the expression ‘while not mandatory’ (which is not used anywhere else in the existing IFRS Literature) preparers may run the risk to have two opposite attitudes:

(a) Either to simply ignore the non-mandatory list as it is considered to be voluntary only disclosures; or conversely

(b) 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.

73 In both cases. this would not contribute to the objectives of the ED to provide more relevant and less irrelevant disclosures.

74 As mentioned in EFRAG’s response to Question 3, we consider that the challenge is down to the IASB being able to strike a right balance between a tier of required disclosures (that ensure some level of comparability) and objectives to mandate additional entity-specific disclosures.

75 We are concerned that, absent a list of minimum disclosure requirements, the proposed approach would expose preparers to second guessing information needs of users and make review by auditors and enforcement by regulators more difficult. It may ultimately not lead to the expected changes and information improvements and potentially create additional cost in the financial reporting ecosystem that are not outweighed by the benefits.

76 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.

77 For information that is always required to meet a disclosure objective, EFRAG suggests that the IASB used the language: ‘*an entity shall disclo*se’.

78 Finally, EFRAG invites the IASB to ensure that consistent language is used across IFRS Standards to indicate disclosures that are not always required. 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).

79 Similarly, the current project to revise the *Management Commentary Practice Statement* considered the expression ‘could include’.

80 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 rigour 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.

EFRAG suggests that the IASB further clarifies the status of the proposed drafting guidance: where the methodology to develop disclosure requirements will be placed and whether it will be subject to future formal consultations.

EFRAG also encourages the IASB to consider how its proposal could facilitate connectivity between financial and sustainability reporting.

Lastly, EFRAG suggests that the IASB clarifies, where the assessment of the disclosure objectives leads to new disclosures being provided, that comparative information should be provided in the financial statements (unless impracticable).

IASB's proposed steps to develop objectives and disclosure requirements

81 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 rigour and scrutiny as requirements for presentation, recognition and measurement.

82 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.

83 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.*'

84 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 users, 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.

Status of the proposed guidance

85 EFRAG has received feedback from stakeholders that the status of the proposed drafting guidance is not clear. Some questioned whether it relates to the IFRS Due Process Handbook, the Conceptual Framework, internal rules only or is a new type of guidance that frames standard setting. It is important to clarify the status of the document and that the proposals are consulted upon.

86 EFRAG recommends that the IASB further clarify where the methodology to develop disclosure requirements will be placed and whether it will be subject to future formal consultations.

Connectivity between financial and sustainability reporting

87 EFRAG observes that the proposed approach to develop disclosure requirements, the ED does not explicitly address how financial reporting disclosures could be developed in a way that could facilitate or enhance connectivity with sustainability reporting. EFRAG observes that sustainability frameworks are not necessarily objectives based and this could create challenges. In that regard, EFRAG's proposed alternative approach maintaining disclosure requirements may provide a better basis to facilitate connectivity between the two sets of disclosures.

88 As an illustration, as noted in EFRAG's Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard Setting [Link], connectivity requires, when preparing financial reporting disclosures and sustainability disclosures, to identify relevant 'anchor points' to allow reconciliations or cross-references to and from financial and sustainability reporting. Anchor Points are item of information (quantitative or qualitative) that offers a connection opportunity (e.g., area of overlap) between financial reporting and sustainability reporting, and such anchor points may be direct when a monetary sustainability disclosure is derived from accounting data, and they may be indirect when sustainability disclosures simply need to be coherent with financial disclosures.

89 In conclusion, EFRAG believes that considering the need to facilitate connectivity with Sustainability reporting will have to be part of any future standard setting by the IASB, including on disclosure.

Comparative information

90 EFRAG acknowledges that providing comparatives information, where the assessment of the disclosure objectives leads to new disclosures being provided, creates challenges for preparers, i.e., to collect, retrospectively, the necessary information. However, EFRAG considers appropriate that the IASB requires to present comparative information in the financial statements (unless impracticable).

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

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 suggests applying an alternative approach combining both objectives and mandated disclosure items. As a consequence, EFRAG does not support finalising the amendments to IFRS 13 as proposed. EFRAG's assessment on the amendments, remains valid whether the IASB decides to proceed with its proposed amendments or follows the recommended alternative approach suggested by EFRAG in its response to Question 3. The field test of the proposed overall objectives has provided evidence that the objective was understandable and could be operationalised.

Therefore, 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 states, as a result of the outreach, that the extent of the effects of the changes depend on the behaviour of the preparers and their appetite for a reduction or a basic change of the information they provide. EFRAG further has a concern that the current approach will in some circumstances lead to less information because of the risk that the reduced list of disclosures may constitute a new 'checklist.' Many of the current disclosure requirements could become voluntary, as their inclusion in the notes would depend on the judgement exercised.

Preamble – Context of EFRAG's responses to the proposed amendments to IFRS 13

91 Consistent with the suggestion to apply an alternative overall approach combining both objectives and mandated disclosure items in the cover letter and in the response to Question 3, EFRAG does not support finalising the amendments to IFRS 13 as proposed in the ED. We suggest that the IASB first considers the feedback received in response to its proposed general approach and decides whether it will amend it.

92 If the IASB decides to follow EFRAG's suggestions on the general approach and decides to apply an alternative approach to IAS 19 and IFRS 13, a re-exposure would be necessary as the IASB would have to consult on the list of mandated disclosures and its interactions with the overall and specific objectives.

93 EFRAG considers that it would not be appropriate if the amendments to IAS 19 and IFRS 13 are finalised using a methodology that would not be applied to other IFRS

Standards in the future. This will lead to inconsistent application of the principles for disclosures within IFRS, exacerbating the risk of confusing preparers and users and resulting in inconsistent application.

94 However, EFRAG's comments and suggestions presented below remain valid whether the IASB decides to proceed with its proposed amendments in the ED or follows EFRAG's recommended alternative approach (see our response to Question 3).

95 EFRAG's responses should be therefore read and understood in this context.

Overall disclosure objective

96 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. Moreover, the field test of the proposals for IFRS 13 has provided evidence that the proposed overall and specific objectives were generally understandable and could be operationalised.

97 The overall disclosure objective will help preparers to 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.

98 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.

99 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 acknowledges that the use of judgement is inherent in nature when considering principle-based guidance, but 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 solving the disclosure problem. Furthermore, it may result in a loss of information as the outreach confirmed that 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. Preparers may decide not to provide other entity-specific and relevant information if these are not included in the minimum list, although application of the objectives in the field-test resulted in limited changes to the previously disclosed information as preparers that participated to the field test were generally able to link most of their current disclosures (based on mandated disclosures contained in current IFRS 13) to the proposed objectives. As a result of the field-test EFRAG is of the view that this statement will hold true for larger companies, whereby the concerns relating to reduced disclosures will be more relevant for medium and smaller companies.

100 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.

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

101 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 117 to **Error! Reference source not found.**). 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.

102 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).

103 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).

104 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). This statement was also emphasised by constituents in the outreach.

105 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.

106 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.

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.

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.

Despite the criticism against the sensitivity disclosures of significant unobservable inputs in level 3, EFRAG considers sensitivity disclosures as more pertinent than alternative fair values and suggests continuing to require such disclosures.

With respect to the specific disclosure objective of reasonably possible alternative fair value measurements, EFRAG is concerned about the trade-off between costs and benefits for this specific objective. Therefore, EFRAG disagrees with this particular kind of information as a consequence of the lessons learned from the outreach and recommends continuing to use the sensitivity analysis. This is due to:

- **the field test results that have provided evidence of the lack of clarity of the requirements of alternative fair values using reasonably possible assumptions as of the balance sheet date;**
- **the consistent message from the outreach that sensitivity analyses were the better way to provide information about measurement uncertainties in the entities individual circumstances; and**
- **the low perceived usefulness sensitivity information scored in EFRAG's survey on the 2017 PIR of IFRS 13 (see paragraph 117) and the increased burden on preparers, as the proposal refers to *all* items that are fair valued on a recurring basis.**

EFRAG also proposes that if the IASB continues without reference to level 3 of the hierarchy, it should clarify for which instruments further information should be provided. Depending on interpretation, this could be either those items on the border between level 2 and 3 or also those subject to valuation adjustments.

107 EFRAG notes 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 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.

108 EFRAG agrees with how the ED characterises the following specific disclosure objectives about assets and liabilities measured at fair value:

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

(b) the measurement uncertainties; and

(c) reasons for changes in fair value measurements.

109 EFRAG agrees in particular that faithful representation of fair value measurement requires the inclusion of an explanation of the uncertainties inherent to that measurement.

110 EFRAG is cognisant that some entities experienced challenges in understanding the IFRS 13 disclosure objectives and some, especially non-financial institutions, considered the information about fair value measurements 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.

111 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 disclosure objectives would reduce or eliminate that non-useful information.

112 The IASB is also proposing in the ED to require specific disclosures about reasonably possible alternative fair value measurements for recurring fair value measurement. EFRAG notes that some users may find information about *alternative fair value measurements* useful. However, EFRAG considers that 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 and may undermine the credibility of the amounts recognised in the statement of financial position. Despite the criticism against the sensitivity disclosures of significant unobservable inputs in level 3, EFRAG considers sensitivity disclosures as more pertinent than alternative fair values and suggests continuing to require such disclosures.

113 Sensitivity analysis provides necessary information on exposures and uncertainties associated with fair value measurements which will meet the stated overall objective. In addition, the Post-Implementation Review of IFRS 13 did not evidence any deficiencies with the sensitivity analysis and users did not raise additional questions on this. The field test has shown that the requirement to provide information to help users understand possible alternative fair values using reasonably possible assumptions as of the balance sheet date does lacks clarity. Several preparers have considered that in their specific circumstances, sensitivity analyses were the better way to provide information about measurement uncertainties. Those financial institutions applying the Basel 3 framework often provide information about prudent valuation of their level 3 instruments which fulfil a similar role.

114 EFRAG considers that disclosing and applying materiality judgements on alternative fair value measurements may be more burdensome for preparers than the existing requirements for sensitivity disclosures without commensurate increases in benefits for users. In addition, it may be difficult for preparers to understand and calculate 'reasonably possible alternative fair value measurements' due to the broad range of possibilities that may fall in this range as indicated by participants in the outreach. Conceptually, fair value represented a best estimate and this could come at odds with the concept of alternative fair value measurements. Reporting alternative fair values or a range of them may undermine the credibility of the amounts recognised in the statement of financial position. The above challenges may result in information overload, and/or cast doubt over the fair value amounts recognised in the primary financial statements.

115 Some users considered that detailed information about some level 2 fair value measurements, such as for those that are close in nature to level 3, would be relevant and useful to them. However, the absence of references to the fair value hierarchy for the objective on alternative fair value disclosures created significant concerns for preparers. This is in the context of level 3 items currently being the smallest group in the fair value hierarchy, while level 2 items are the account for the vast majority of volumes for financial institutions. Requiring such disclosures (or sensitivity disclosures) for this level 2 population would therefore increase the burden on preparers significantly. Therefore, considering the low perceived usefulness this information, as scored in its 2017 survey (see paragraph 117), EFRAG is not convinced about the trade-off between costs and benefits for this proposed requirement in several industries, including for financial institutions.

116 Based on the definition of level 2 instruments in IFRS 13, the changes from unobservable inputs are not expected to be significant for level 2 instruments. Furthermore, information about the impact of changes in observable inputs are provided by the IFRS 7 sensitivity disclosures. Therefore, EFRAG considers that further guidance on the application of the materiality judgement would be required as many banking preparers in the field test did not consider that the specific objective is applicable to level 2 instruments. Such clarification should also explain the application of materiality to valuation adjustments made to model-calculated fair values in level 2. These adjustments are required where valuation models do not incorporate all required valuation aspects and include debit or credit valuation adjustments to derivatives. These adjustments are often insignificant to the fair value of the instrument but given the extent of instruments it is applied to, could be very significant in total value. There may be considerable debate as to whether these are observable or not which may differ based on the market mechanisms in different territories and/or the specific adjustment in question as well as the liquidity in the marketplace.

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 with the proposals to mandate the information described in paragraphs 105, 109 and 116 of the ED.

Regarding the suggested list of non-mandatory information, as mentioned in our responses to the first questions of the ED, EFRAG has concerns with the labelling of the information as non-mandatory and questions the likely effectiveness of non-mandatory information as well as the use of such language.

Instead EFRAG recommends that the IASB considers an alternative approach in developing disclosure requirements that combined the use of overall and specific disclosures objectives with more extended list of items of information that are always required to meet the objectives (subject only to materiality).

EFRAG suggests that the IASB considers the feedback from its consultation and extensive outreach activities to identify which items of information should be added to the list of required information. The IASB can also consider the results of the survey conducted by EFRAG in the context of the 2017 Post-implementation review of IFRS 13 which identified the main items of information valued by users.

117 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%

118 For further information, please refer to Annex 1.

Required disclosures

119 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

[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.

(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.

120 Along with its support for an alternative approach EFRAG considers that the list of items of information that would always be required to meet the disclosure objectives (subject to that information being material to the entity) should be expanded and that list should be broader than the items of information mentioned in the paragraph before. EFRAG also suggests retaining the sensitivity analyses as a mandated item of information.

121 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.

122 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.

123 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.

124 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.

125 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 133 will also provide useful insights in this regard.

Reasons for changes in fair value measurements

126 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.

127 For those 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

128 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.

129 As indicated in its response to the first questions of the ED, (see paragraphs 55 and following) EFRAG favours an alternative approach to address the disclosure problems whereby the IASB would combine the introduction of overall and specific objectives and the setting of mandated disclosures which would be always required (subject to materiality only) to meet the objectives.

130 Under this proposed approach, the IASB could use the outreach to stakeholders identified in the ED to collect feedback about user information needs, not only to identify disclosures objectives but also to identify a set of disclosure requirements for which the objectives give context and explain why the information is needed.

131 EFRAG suggests that the IASB considers the feedback from its consultation and extensive outreach activities to identify which items of information should be added to the list of required information. The IASB can also consider the results of the survey conducted by EFRAG in the context of the 2017 Post-implementation review of IFRS 13 which identified the main item of information valued by users.

132 In the context of our concerns around the wording of items of non-mandatory information in question 4, 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 109 above.

133 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 valuation process, including its governance process, than the ones proposed in in paragraph 113 of the ED. In addition, EFRAG considers this proposed requirement should be modified. EFRAG considers sensitivity disclosures as more pertinent than alternative fair values and suggests continuing to require such disclosures.

134 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.

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.

135 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.

136 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.

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.

137 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.

138 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.

139 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

If the proposals were to be finalised by the IASB, EFRAG considers that transition requirements should be further investigated by the IASB and an adequate implementation timeframe should be defined. EFRAG is concerned about the potential burden of this new disclosure requirements arising from the ED.

EFRAG also suggests that the IASB clarifies, where the assessment of the disclosure objectives leads to new disclosures being provided, that comparative information should always be provided in the financial statements (unless impracticable).

EFRAG notes that some of its constituents question the cost-benefit balance regarding the consequential amendments to the interim reporting standard, IAS 34.

Lastly, EFRAG's view is that some entities are likely to incur significant costs in the first year, and these are likely to persist for future reporting periods.

140 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. EFRAG also considers that IFRS 7 Financial Instruments: Disclosures may have been a better candidate to test the proposals, given that it is more focussed on disclosures by financial institutions and is difficult to apply by other entities.

141 If the proposals were to be finalised by the IASB, EFRAG considers that transition requirements should be further investigated by the IASB and an adequate implementation timeframe should be defined. 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.

142 EFRAG also suggests that the IASB could clarify, where the assessment of the disclosure objectives leads to new disclosures being provided, that comparative information should be provided in the financial statements (unless impracticable).

143 EFRAG notes that some of its constituents have concerns about the cost-benefit balance regarding the consequential amendments to IAS 34 *Interim Financial Reporting* paragraph 16A(j). This requires entities to provide in the interim period(s) the same information as for year-end for financial instruments. This includes all the disclosures about fair value to meet the requirements in the disclosure objectives in paragraphs 100–101, 103, 107, 111 and 114 of IFRS 13 and the disclosures about fair value in paragraphs 25, 26 and 28–30 of IFRS 7. These disclosures are not necessarily relevant for the interim reporting periods.

144 EFRAG's view is that some entities would incur significant incremental costs on initial application of the proposed disclosure requirements and these are likely to persist for future reporting periods.

145 The costs relate primarily to the emphasis on applying judgement based on the needs of users of financial statements rather than applying a checklist. For example, financial institutions report quarterly (although sometimes for Q1 and Q3, they do

not apply IAS 34) and the cost to apply judgement each period could be excessive. Incremental costs may also include the increased involvement of senior management and increased audit costs relating to the application of judgement. These costs would be relevant on an ongoing basis.

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

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 suggests applying an alternative approach combining both objectives and mandated disclosure items. Consequently, EFRAG does not support finalising the amendments to IAS 19 as proposed. EFRAG's assessment on the amendments remains valid whether the IASB decides to proceed with its proposed amendments or follows the recommended alternative approach suggested by EFRAG in its response to Question 3.

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 considers that careful judgement on the level and basis of aggregation/disaggregation is crucial as the information needs to be sufficiently granular to be meaningful. Some entities may even consider disaggregating some material pension plans to the minimum level (at the individual level) while not giving details on other plans that are not material. The IASB may highlight this in paragraph 147C as one of the alternatives that entities may follow to aggregate or disaggregate information about defined benefit plans. EFRAG also considers that the examples of features an entity could use to disaggregate information provide useful information to preparers. However, EFRAG observes that these examples are in substance already included in IAS 19. Therefore, it will probably not lead to improve the current practice unless additional application guidance is developed. Further, EFRAG notes 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.

Preamble – Context of EFRAG's responses to the proposed amendments to IAS 19

146 Consistent with the suggestion to apply an alternative approach combining both objectives and mandated disclosure items in the cover letter and in the response to Question 3, EFRAG does not support finalising the amendments to IAS 19 as proposed in the ED. We suggest that the IASB first considers the feedback received in response to its proposed approach and decides whether it will amend its approach.

147 If the IASB decides to follow EFRAG's suggestions on the general approach and decides to apply an alternative approach to IAS 19 and IFRS 13, another set of exposure drafts would be necessary as the IASB would have to consult on the list of mandated disclosures and its interactions with the overall and specific objectives.

148 EFRAG considers that it would not be appropriate if the amendments to IAS 19 and IFRS 13 are finalised using a methodology that would not be applied to other IFRS Standards in the future. This will lead to inconsistent application of the principles for disclosures within IFRS, exacerbating the risk of confusing preparers and users and resulting in inconsistent application.

149 However, EFRAG's comments and suggestions presented below remain valid whether the IASB decides to proceed with its proposed amendments in the ED or follows EFRAG's recommended alternative approach (see our response to Question 3).

150 EFRAG's responses should therefore be read and understood in this context.

151 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.

152 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.

153 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.

154 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.

155 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 to be meaningful, especially in those cases where defined benefit plans are significant and have a significant impact on its financial performance and cash flows. Some entities may even consider disaggregating some material pension plans to the minimum level (at the individual level) while not giving details on other plans that are not material. The IASB may highlight this in paragraph 147C as one of the alternatives that entities may follow to aggregate or disaggregate information about defined benefit plans.

156 We generally 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.

157 EFRAG observes that the examples of features an entity could use to disaggregate information are in substance already included in IAS 19. Therefore, it is questionable whether the revised guidance in practice will result in a substantially different level of disaggregation to that entities currently achieve under IAS 19 requirements. As indicated in paragraph BC108, the importance of appropriate levels of aggregation was a prevalent theme throughout the Board's discussions with stakeholders on DBP disclosures. If the IASB is aware of situations in which the level of aggregation/disaggregation is not appropriate, we recommend the IASB to provide further guidance to overcome these issues.

158 Further, EFRAG notes 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.

159 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.

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.

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

EFRAG's response

EFRAG does not support finalising the amendments to IAS 19 as proposed. However, as indicated in previous question, EFRAG's assessment about the specific disclosure objectives, remains valid whether the IASB decides to proceed with its proposed amendments or follows the recommended alternative approach suggested by EFRAG in its response to Question 3.

The field test has confirmed EFRAG's initial thought 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. It has also provided evidence that the proposed specific disclosure objectives were generally understandable and could be operationalised.

Therefore, EFRAG agrees that the proposed specific disclosure objectives capture the correct aspects needed by users in relation to defined benefit plans.

However, EFRAG does not support the specific disclosure objective that requires entities to disclose information that enable users of financial statements to understand the future payment to members of defined benefit plans that are closed to new members. EFRAG considers that the information needs of users for defined benefit plans that are closed to new members are very similar to plans that are open to new members. Therefore, EFRAG suggests that the IASB should combine this specific disclosure objective with the more general objective of expected future cash flows relating to defined benefit plans.

With regard to this latter specific disclosure objective that require entities to disclose information that enables users to understand the expected future cash flows related to defined benefit plans, EFRAG seeks for the IASB to clarify that the notion of future "contributions to the plan" included in paragraph 147L(b) comprises both expected future contributions to the plan and expected future benefits, directly paid by the entity to plan participants.

160 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.

161 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.

162 Moreover, the field test activities and outreach events that EFRAG carried out did not identify the need to develop additional specific disclosure objectives. These activities have provided evidence that the IAS 19 proposed specific objectives were generally understandable and could be operationalised. The application of the objectives resulted in general in limited changes to the previously disclosed information and preparers were generally able to link most of their current disclosures to the proposed objectives.

163 Therefore, EFRAG generally 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.

164 However, EFRAG does not support the specific disclosure objective that requires entities to disclose information that enable users of financial statements to understand the future payment to members of defined benefit plans that are closed to new members. We consider that the information needs of users for defined benefit plans that are closed to new members are very similar to plans that are open to new members. In EFRAG's view, the non-mandatory items of information that may satisfy this specific disclosure requirement included in paragraph 147P of the ED may be relevant for defined benefit plans that are closed to new members, but this information would not likely be relevant if it is not combined with other items of information. Further, EFRAG has carried out various outreach activities with different group of stakeholders and some of them questioned this specific disclosure objective exposing similar arguments.

165 Therefore, EFRAG suggests that the IASB should combine the specific disclosure objective of future payments to members of defined benefit plans that are closed to new members with the more general objective of expected future cash flows relating to defined benefit plans.

166 Furthermore, in relation to the specific disclosure objective that require entities to disclose information that enables users to understand the expected future cash flows related to defined benefit plans, we recommend the IASB clarify the notion of future "contributions to the plan." To understand the effect of the defined benefit obligation on the entity's future cash flows, information is necessary to with regard to the cash flows that comprise both expected future contributions to the plan and expected future benefit payments, directly by the entity to plan participants. There are jurisdictions where entities can directly pay benefits to plan participants regardless of the status of the plan (funded or unfunded). In EFRAG's view, from the proposed paragraph 147L(b) it is unclear whether "contributions to the plan" include benefit payments that are paid directly by the entity itself (rather than by plan). Therefore, we recommend the IASB clarify that to achieve the proposed specific disclosure objective, an entity shall disclose information about both, expected future contributions to the plan, as well as expected future benefit payments, directly by the entity to plan participants.

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 explains 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. However, EFRAG is of the opinion that the tabular reconciliation separating the plan assets, the defined benefit obligation and the asset ceiling, as included in current IAS 19, would be more useful to users of financial statements.

Regarding the suggested list of non-mandatory information, as mentioned in our responses to the first questions of the ED, EFRAG has concerns with the labelling of the information as non-mandatory and questions the likely effectiveness of non-mandatory information as well as the use of such language.

Instead EFRAG recommends that the IASB should consider an alternative approach in developing disclosure requirements that combines the use of overall and specific disclosures objectives with a more extended list of items of information that are always required to meet the objectives (subject to materiality).

EFRAG suggests that the IASB should consider the feedback from its consultation and extensive outreach activities to identify which items of information should be added to such list of required items of information.

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.

Further, EFRAG has understood during the various outreach events that the non-mandatory item of information included in paragraph 147P(a) (weighted average duration of defined benefit obligations) is useful for users of financial statements regardless of the situation of the plan. Therefore, EFRAG's view is that this item of information should also apply to pension plans other than those that are closed to new members.

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. Therefore, we consider that the IASB should require entities to disclose the set of significant actuarial assumptions specified in paragraph 147S(a).

Lastly, EFRAG considers that the sensitivity analysis to significant actuarial assumptions should be regarded as belonging to the list of required information.

Required disclosures

167 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.

168 The illustrative Example 1 to IAS 19 includes 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.

169 EFRAG agrees that information included in paragraph 147F is required to be disclosed for the reasons explained in paragraph 167 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.

170 However, we note that, unlike the current requirements in IAS 19, the proposed new paragraph 147V only requires entities to disclose a reconciliation for the net defined benefit liability. By contrast, IAS 19 require entities to disclose a separate reconciliation for plan assets, the present value of the defined benefit obligation and the effect of asset ceiling. EFRAG is of the opinion that the tabular reconciliation separating the plan assets, the defined benefit obligation and the asset ceiling would be more useful to users of financial statements as they could look at the gross figures.

Non-mandatory disclosures

171 As indicated in its response to the first questions of the ED, (see paragraphs 54 and following) EFRAG favours an alternative approach to address the disclosure problems whereby the IASB would combine the introduction of overall and specific objectives and the setting of mandated disclosures which would be always required (subject to materiality only) to meet the objectives.

172 Under this proposed approach, the IASB could use the outreach to stakeholders identified in the ED to collect feedback about user information needs, not only to identify disclosures objectives but also to identify a set of disclosure requirements for which the objectives give context and explain why the information is needed.

173 EFRAG suggests that the IASB considers the feedback from its consultation and extensive outreach activities to identify which items of information should be added to the list of required items of information.

Information about future cash flows

174 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 (see paragraphs 164 and 165 above).

175 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.

176 For some pension plans, EFRAG has also received feedback during outreach events that it might be difficult to provide cash flow information. For instance, in the case of insured plans where the entity only knows the amount of premium it will have to pay for the next period.

177 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.

178 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. However, as indicated in paragraph 166 above, EFRAG seeks for the IASB to clarify that the notion of future "contributions to the plan" included in paragraph 147L(b) comprises both expected future contributions to the plan and expected future benefits, directly paid by the entity to plan participants.

Weighted average duration of DBOs

179 Paragraph 147P(a) proposes the weighted average duration of defined benefit obligations as a non-mandatory item of information that may enable users to understand the period over which payments will continue to be made to members of defined benefit plans that are closed to new members. As this information is required by IAS 19, entities already include it in their notes. We have also understood that this information is useful for users of financial statements regardless of the situation of the plan. Therefore, EFRAG's view is that this item of information should also apply to pension plans other than those that are closed to new members. This would also be consistent with our suggestion included in paragraph 165. 165

Information about actuarial assumptions

180 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.

181 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.

182 Furthermore, EFRAG considers that the significant demographic and financial assumptions described in paragraph 147S(a) often have significant effects on the amount of the defined benefit obligation. We have also understood, during the various outreach events, that this is a relevant disclosure for users of financial statements. Lastly, we view this information as unavoidable to meet the specific disclosure objective. Therefore, we consider that the IASB should require entities to disclose the information specified in this paragraph.

Information about sensitivity / uncertainty

183 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 required.

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

EFRAG 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 observes that there are more and more defined contributions plans with complex features (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 only the proposed overall objective included in the ED, the potential risks of defined contribution plans might not be captured or sufficiently disclosed. Therefore, EFRAG recommends that the IASB should include specific items that capture the potential risks of defined contribution plans.

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

185 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.

186 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.

187 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.

188 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.

189 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 significantly 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. Therefore, EFRAG recommends that the IASB should include specific items that capture the potential risks of defined contribution plans.

190 Finally, EFRAG observes that the reference to the requirements of IAS 24 regarding information about employee benefits for key management personnel, currently included in paragraphs 54 of IAS 19, has been omitted. We suggest keeping this reference as we consider it useful.

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.

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

(a) multi-employer <u>defined contribution plans</u> 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 <u>defined benefit plan.</u>

192 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.

193 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 192, 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.

194 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 those associated risks.

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.

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

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

195 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.

196 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.

197 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.

198 Finally, EFRAG observes that the reference to the requirements of IAS 24 regarding information about employee benefits for key management personnel, currently included in paragraphs 158 and 171 of IAS 19, has been omitted. We suggest keeping this reference as we consider it useful.

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

If the proposals were to be finalised by the IASB, EFRAG considers that transition requirements should be further investigated by the IASB and an adequate implementation timeframe should be defined as there is a potential burden arising from the ED.

EFRAG also suggests that the IASB clarifies, where the assessment of the disclosure objectives leads to new disclosures being provided, that comparative information should always be provided in the financial statements (unless impracticable).

199 If the proposals were to be finalised by the IASB, EFRAG considers that transition requirements should be further investigated by the IASB and an adequate implementation timeframe should be defined. 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.

200 EFRAG also suggests that the IASB could clarify, where the assessment of the disclosure objectives leads to new disclosures being provided, that comparative information should be provided in the financial statements (unless impracticable).