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Disclosure Initiative - Targeted Standards-level Review of Disclosures

Objective

- 1 The objective of the session is to provide an update on the decisions made by the IASB on the project Disclosure Initiative – Targeted Standard-level Review of Disclosures.
- 2 The EFRAG FRB last discussed this project at its July 2022 meeting when it received a presentation of the feedback received by the IASB in response to its public consultation and discussed possible next steps for the project.
- 3 The EFRAG FR TEG received a similar update at the June 2022 EFRAG FR TEG-CFSS meeting.
- 4 This paper therefore focuses on the decisions made by the IASB since July 2022.

Background

- 5 On 25 March 2021, the IASB published [the Exposure Draft *Disclosure Requirements in IFRS Standards - A Pilot Approach \(The ED\)*](#) which proposed a new approach for the IASB to develop disclosure requirements and tested that approach by applying it to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee benefits*. The original comment period was extended from 210 days to 293 days, so as to end on 12 January 2022.
- 6 The proposed approach would require entities to comply with:
 - (a) Overall disclosure objectives that describe the overall information needs of users of financial statements; and
 - (b) Specific disclosure objectives that describe the detailed information needs of users of financial statements.
- 7 In addition, the ED included a list of non-mandatory items of information that would help entities comply with the specific disclosure objectives.
- 8 The ED contained draft guidance to be used by the IASB when developing disclosure requirements in individual Standards. In applying this guidance, the IASB aimed to:
 - (a) Enhance engagement with users to ensure that the IASB has an in-depth understanding of users' information needs and clearly explains those needs in the Standards;
 - (b) Give greater prominence to the objective of disclosure requirements, requiring companies to apply judgement and provide information to meet the described user needs; and

- (c) Minimise requirements to disclose particular items of information, and instead to help companies focus on disclosing material information only.

EFRAG final Comment Letter

- 9 EFRAG issued its [final comment letter](#) in January 2022. The comment letter was based on extensive outreach with a wide range of stakeholders. In its letter, EFRAG welcomed the objective of the project and agreed with the proposal to work closer with users and other stakeholders early in the standard-setting process. However, based on the extensive outreach, field-testing and consultation conducted with European stakeholders, EFRAG concluded that the proposed approach in the ED may not achieve its intended objective. Instead, the proposed approach would likely:
 - (a) Be ineffective in addressing the disclosure problem and not result in providing more useful and relevant information to users and could even result in relevant information being omitted;
 - (b) Result in impairing comparability for users of financial statements by introducing a more flexible approach to disclosures;
 - (c) Increase enforcement and audit challenges; and
 - (d) Be more costly for preparers and their auditors.
- 10 EFRAG suggested an alternative approach and a less radical change to address the disclosure problem, whereby the IASB would combine the introduction of overall and specific objectives (as proposed in the ED) with a list of items of information always required (subject only to a materiality assessment) to meet those 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.
- 11 In addition, EFRAG encouraged the IASB to further consider the interactions between its proposed approach to develop disclosure requirements and:
 - (a) The role of the notes of the financial statements taken as a whole;
 - (b) The increasing use of technology and digital reporting;
 - (c) The application of the materiality concept; and
 - (d) The assessment of stewardship.
- 12 Lastly, consistent with the suggestion to apply an alternative approach combining objectives and mandated disclosure items, EFRAG did not support finalising the amendments to IAS 19 and IFRS 13.
- 13 Instead, EFRAG suggested 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 to consult on the list of mandated disclosures and its interaction with the overall and specific objectives.

IASB subsequent discussions and decisions

- 14 The IASB met in February, May and July to discuss the feedback it received on the ED.
- 15 Feedback received by the IASB (111 responses) was generally consistent with the views expressed in EFRAG's comment letter:
 - (a) Most respondents considered that the information that describe user information needs would help entities provide relevant information. They also

welcomed the proposals for the IASB to work closely with users and other stakeholders.

- (b) However, most respondents considered that the proposals would not help solve the disclosure problem. Most expressed the view that the IASB's proposal to use a less prescriptive language when referring to items of information would likely make the disclosure requirements difficult to operationalise or enforce.
 - (c) Many suggested a 'middle ground' approach in which a disclosure objective will always be accompanied by a list of mandatory items of information that an entity should disclose, if material, to meet the objective.
 - (d) Some considered that overall disclosure objectives were too broad to be effective as requirements and should not be mandated but provided as 'non-prescriptive context setting information'.
- 16 The discussion at the July 2022 ASAF considered the feedback received (which was summarised by the EFRAG Secretariat in its [TEG CFSS meeting paper in June 2022](#)). The following questions were raised by the IASB Staff to ASAF members:
- (a) Has the IASB correctly analysed the arguments for and against each possible course of action, and the potential next steps?
 - (b) Would a middle ground approach as illustrated in the ASAF paper on pages 14–15 provide a better framework for enabling entities to make effective judgements?
 - (c) If the IASB were to terminate the project, is there anything the IASB should do to help address the disclosure problem?
 - (d) Should the IASB further develop the proposed amendments to the disclosure requirements of IFRS 13 Fair Value Measurement and IAS 19 Employee Benefits?
- 17 During the ASAF meeting EFRAG provided the following feedback from the TEG and CFSS members:
- (a) Field-test participants in Europe considered the objectives useful to decide about the content and structure of disclosures. Some of the field test participants restructured their financial information as a result of field test participation.
 - (b) Members generally supported the continuance of the project and had sympathy for the proposed **middle ground approach** as suggested in the ASAF paper. Members agreed with having a non-prescriptive context element overall objective. They noted that the use of the catch-up all clause is limited in practice and that if the clause is too loose or wide, the objective is difficult to be enforced. In addition, IAS 1 already provide a basis to disclose material things not required by specific objectives. Thus, emphasis should be in the specific disclosure objectives.
 - (c) Several members encouraged to leverage on the feedback received to shape future standards (rather than modifying previous standards).
 - (d) Several members did not support the finalisation of the Amendments to IFRS 13 and IAS 19. One member noted that finalising IAS 19 and IFRS 13 without taking the revised approach into consideration would not seem to be feasible. Another member reminded that, during the fieldwork, many preparers pointed out that after applying the proposals, they had ended up roughly in the same place. Thus, from a cost benefit perspective, it was not worth it to undertake standard-setting activities.

- (e) On the ASAF question on whether the IASB could do something to help address the disclosures problem if they decided to terminate the project, members did not provide comments as they generally supported the continuance of the project.
- (f) The EFRAG Secretariat noted during the EFRAG FR TEG-CFSS meeting that many of the suggestions made in EFRAG's comment letter remained valid even if the project was discontinued:
 - (i) Consider whether and how developments in digital reporting affect the standard setting process and may help alleviate the disclosure problem;
 - (ii) Encourage 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).
 - (iii) Consolidate experience from most recently issued Standards which contained objectives for disclosure (IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*).
 - (iv) To continue engaging with stakeholders on a broad scale, including auditors and regulators is essential.

Final decisions made by the IASB

- 18 The IASB met in October 2022 to decide on what actions to take on the project. At the meeting, the IASB decided:
- (a) To retain the methods proposed in the Exposure Draft for developing disclosure requirements (outreach with users, preparers...)
 - (b) To introduce a 'middle-ground' approach to drafting disclosure requirements whereby:
 - (i) **Overall disclosure objectives** are not mandated (as proposed in the ED) but provided as context setting guidance to describe the overall information needs of users of financial statements;
 - (ii) **Specific disclosure objectives** are mandated. They describe the detailed information needs of users of financial statements. The specific disclosure objectives are supported with explanations of the assessments that users make that rely on information an entity discloses by applying the specific disclosure objective.
 - (iii) A list of **items of information that an entity is required to disclose** to meet a specific disclosure objective, is provided (subject to the requirements of paragraph 31 of IAS 1¹ about materiality).
- 19 Finally, the IASB decided to publish the IASB's Drafting Guidance (describing the methods for developing disclosure requirements and the approach to drafting them) as a separate document on the IFRS Foundation website. The revised document will not be consulted upon again.

¹ Paragraph 31 of IAS 1 provides that an entity:

- Needs not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements.
- Shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

- 20 The below in Appendix 1 compares EFRAG’s recommendations with the decision made by the IASB.

Question to the EFRAG FRB and EFRAG FR TEG

- 21 Do members have comments on the project update?

APPENDIX 1: Follow-up on EFRAG’s recommendations compared to the IASB decisions

EFRAG’s main recommendations	IASB Decision in October 2022	Alignment
<p>Support for the development of a more rigorous methodology to define objective-based disclosure requirements and to work more closely with users 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.</p>	<p>Retain the proposed approach and steps proposed in the ED that EFRAG supported</p>	✓
<p>Consider an alternative approach combining the introduction of overall and specific objectives (as proposed in the ED) with a list of items of disclosures always required (subject only to a materiality assessment) to meet those objectives.</p>	<p>The IASB did not retain its proposals to mandate only objectives and reinstated a requirement to identify a list of disclosure requirements that are always needed to meet the objectives. (EFRAG did not specifically suggest making the overall objectives non mandatory. However in subsequent discussions at the CFSS-TEG meeting of June 2022, members supported that decision).</p>	✓
<p>Provide 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.</p>	<p>All specific disclosure objectives are supported with explanations of the assessments that users make that rely on information an entity discloses by applying the specific disclosure objective.</p>	✓
<p>Do not finalise the amendments to IAS 19 and IFRS 13 (as EFRAG suggested an alternative approach).</p>	<p>The IASB decided to not proceed with any further work on the disclosure requirements in IFRS 13 and IAS 19. The IASB is expected to publish a project summary in March 2023.</p>	✓