March 2021

IFRS® Standards
Exposure Draft

Snapshot: *Disclosure Requirements in IFRS Standards—A Pilot Approach*

This Snapshot provides an overview of the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* published by the International Accounting Standards Board (Board).

The Board's objectives:

1. To improve the Board's approach to developing and drafting disclosure requirements in IFRS Standards so that companies applying them provide more useful information to investors.
2. To improve the disclosure requirements in IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*—the Standards on which the Board tested its proposed approach.

Proposals:

1. The Board proposes new guidance to use when it is developing and drafting disclosure requirements in IFRS Standards (proposed Guidance). Disclosure requirements developed applying the proposed Guidance would require companies to comply with disclosure objectives and apply judgement to decide what to disclose, instead of applying disclosure requirements like a checklist.
2. The Board proposes to replace the disclosure requirements in IFRS 13 and IAS 19 with a new set of disclosure requirements developed applying the proposed Guidance.

Next steps: The Board will consider feedback received on the Exposure Draft in determining whether to use the proposed Guidance in its standard-setting activities. If the Board decides to use the proposed Guidance in future, the Board would update the Guidance and finalise the amendments to IFRS 13 and IAS 19 based on the feedback received.

Comment deadline: 21 October 2021

What problem is the Board trying to solve?

The disclosure problem

The Board has identified three main concerns about the usefulness of information disclosed in financial statements. These are collectively known as the 'disclosure problem'.

The disclosure problem:

- not enough relevant information
- too much irrelevant information
- ineffective communication

In March 2017, the Board published the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to help it better understand the disclosure problem and possible approaches to addressing it.

The Discussion Paper considered a number of activities the Board might undertake to help address the disclosure problem.

What causes the disclosure problem?

Companies often apply the disclosure requirements in IFRS Standards like a checklist and do not make effective materiality judgements. They approach disclosures as a compliance exercise, rather than as a means of communication with investors. Auditors and regulators often apply a similar 'checklist approach' when assessing compliance with disclosure requirements. The checklist approach is a significant cause of the disclosure problem. The way disclosure requirements are developed and drafted in IFRS Standards can contribute to both the checklist approach and the disclosure problem.

Stakeholders say IFRS Standards can contribute to the disclosure problem because they:

lack specific disclosure objectives	use prescriptive language such as 'shall disclose' or 'as a minimum'	contain voluminous prescriptive requirements
↓	↓	↓
companies may not always understand why information is useful, so it is difficult to make effective judgements	some stakeholders think the easiest way to achieve compliance is to apply disclosure requirements like a checklist	complying with high volumes of prescriptive requirements does not leave time to apply materiality judgements

Addressing the disclosure problem

Specific activities

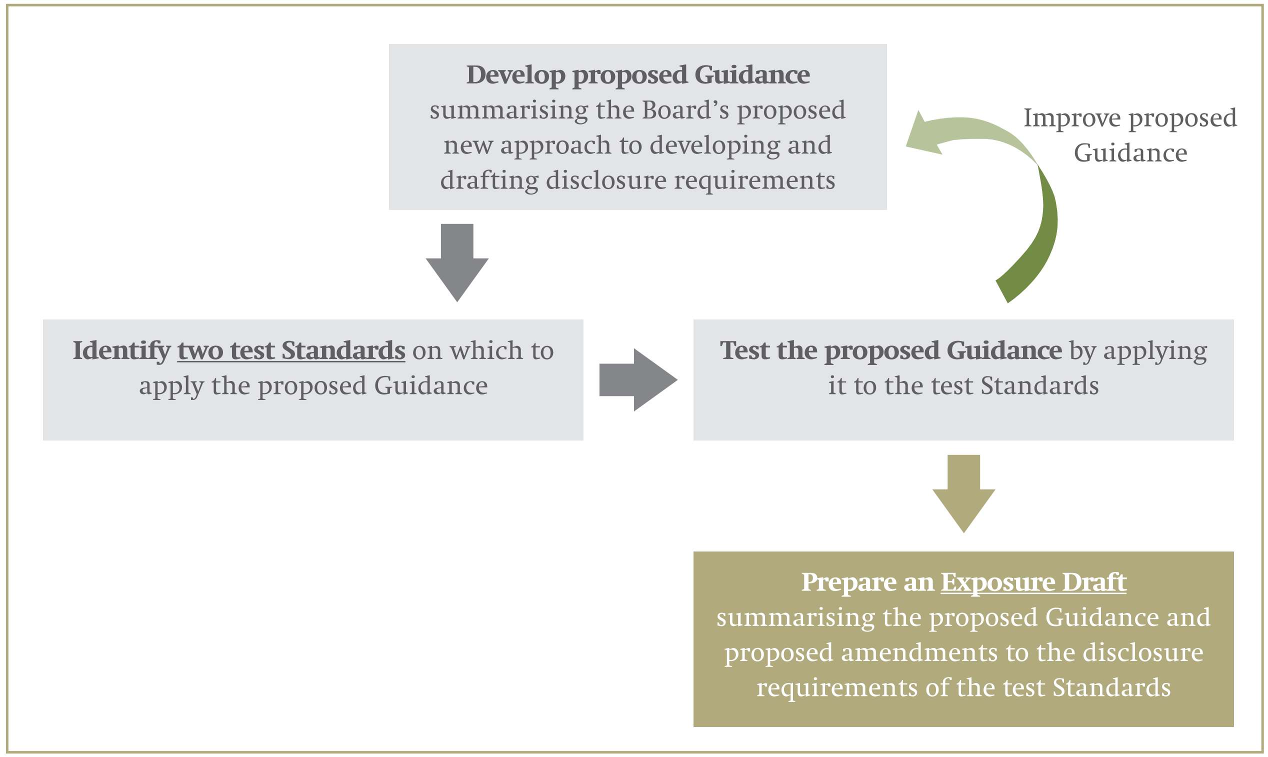
The Board has previously undertaken several projects aimed at addressing specific aspects of the disclosure problem. However, research on the Principles of Disclosure project demonstrated that an overarching response to the overall problem is still needed.

Overarching response

The Board's research demonstrated that addressing the disclosure problem would require all those involved in financial reporting to work together and that improving the disclosure requirements in IFRS Standards would be a useful first step towards solving the overall problem.

After reviewing the findings of the Principles of Disclosure research project and feedback from stakeholders, the Board decided that improving the way it develops and drafts disclosure requirements in IFRS Standards is the most effective way it can help to address the disclosure problem.

Improving the way the Board develops and drafts disclosure requirements



What is the Board's proposed new approach?

The proposed Guidance

The proposed Guidance would be a document for the Board that describes a new approach to developing and drafting disclosure requirements that is intended to result in more decision-useful information in financial statements.

The Board used the proposed Guidance to develop the amendments to IFRS 13 and IAS 19 that are proposed in the Exposure Draft. After testing on IFRS 13 and IAS 19—which includes consultation on the proposals in the Exposure Draft—the Board will decide whether to use the proposed Guidance when developing and drafting disclosure requirements in future standard-setting activities.

Disclosure requirements developed using the proposed Guidance would require companies to comply with disclosure objectives rather than with prescriptive requirements to disclose particular items of information.

What will disclosure requirements developed using the proposed Guidance contain?

Overall disclosure objectives

- describe the overall information needs of investors within an individual IFRS Standard.
- **require** companies to assess whether the information provided in the notes meets those overall investor information needs. If that information is insufficient, companies will need to disclose additional information to meet investor needs.

Specific disclosure objectives

- describe the detailed information needs of investors within an individual IFRS Standard.
- **require** companies to disclose all material information to enable those specific investor information needs to be met.
- include an explanation of what investors may do with the information provided (for example, what analysis will investors perform?).

Items of information

- provide items of information a company **may, or in some cases is required to, disclose** to satisfy each specific disclosure objective.
- help companies apply judgement and determine how to satisfy specific disclosure objectives.

How would the Board’s proposed new approach help?

Catalyst for change

Addressing the disclosure problem will require all those involved in financial reporting to play their part. By taking steps to improve the requirements in IFRS Standards, the Board would kick-start the process and enable stakeholders to improve the way they approach financial statement disclosures. The Board would do this by amending the disclosure requirements in a way that would equip stakeholders to make effective materiality judgements.

The Board's three main proposals and the stakeholder concerns they respond to are set out in the table on this page. The proposals provide companies, auditors and other stakeholders with a basis for making effective materiality judgements. These proposals ensure that effective communication with investors is the only way to achieve compliance with disclosure requirements in the Standards.

What stakeholders say	Board’s main proposals
Companies may not always understand why information is useful, so it is difficult to make effective judgements	**Engage investors even earlier** in the standard-setting process and **then develop specific disclosure objectives**, along with explanations of what investors may do with the information provided. Link those objectives with items of information that could help satisfy them.
The easiest way to achieve compliance is to apply disclosure requirements like a checklist	Require companies to comply with disclosure objectives. Companies can only meet objective-based requirements **by applying judgement**.
Complying with high volumes of prescriptive requirements does not leave time to apply materiality judgements	**Minimise requirements to disclose particular items** of information, thus removing a perceived compliance burden and making it clearer that only material information should be disclosed.

Q&A—Effects of the Board's proposed new approach

Would stakeholders be required to move away from applying disclosure requirements like a checklist?

Yes. The proposed approach would change how stakeholders prepare, review, audit and enforce disclosures in financial statements.

Companies would need to apply judgement to determine what information is needed to satisfy the disclosure objectives in their circumstances.

Auditors and regulators would need to apply judgement to assess whether the information provided satisfies the disclosure objectives, considering both content and communication effectiveness. Information that is communicated ineffectively is unlikely to meet the investor needs described in disclosure objectives.

Similarly, disclosure of immaterial information would not help a company to satisfy the disclosure objectives. Therefore, there would be no incentive for stakeholders to include immaterial information in financial statements.

IAS 1 requires the use of judgement. How would the proposed approach be different?

Feedback has indicated that stakeholders perceive prescriptive requirements in individual IFRS Standards as overriding the general requirements in IAS 1 *Presentation of Financial Statements*.

Applying the proposed approach, the Board would reinforce the materiality requirements in IAS 1 by developing requirements, at an individual standard level, that can only be satisfied by applying materiality judgements.

Would there be costs to companies?

The Board expects companies would incur incremental costs, particularly when first applying disclosure requirements developed using the proposed approach. Those costs would primarily relate to the behavioural changes needed to apply judgement.

What would be the effect on electronic reporting?

The Board expects to create electronic reporting tags for each disclosure objective and each item of information in a Standard.

There could be an increased need for companies to create their own extensions for company-specific information provided to meet the disclosure objectives.

Would disclosures be comparable between companies?

The Board is proposing to include examples of items of information that could help companies meet the specific disclosure objectives in a Standard. These examples should help achieve comparability between companies for which similar information is material. In the Board's view, while two companies might disclose information that looks different, the information would be comparable in all material respects if both companies have met the investor needs described in the objectives.

Testing the Board's proposed new approach

Selecting the test Standards

When selecting Standards to use as test cases, the Board considered the project objectives. The Board selected Standards that:

- contained many or all of the issues that contribute to the disclosure problem; and
- would benefit from a review of their disclosure requirements, because disclosures provided applying those requirements could meet investor needs more effectively.

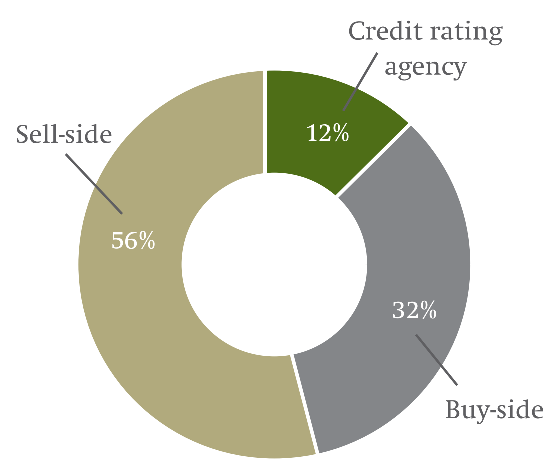
After research and outreach, the Board concluded that reviewing the disclosure requirements in IFRS 13 and IAS 19 would enable it to test all aspects of the proposed approach.

Standard	Likely key benefit of applying the proposed approach
IFRS 13	Developing requirements that help companies make more effective materiality judgements
IAS 19	Developing requirements that help companies provide information that investors find useful in their analysis

How the Board worked with stakeholders to develop proposed amendments to IFRS 13 and IAS 19

The Board carried out tailored outreach with 35 investors in individual or small group meetings. The Board also met with its consultative groups to discuss the information needs of investors and how those needs could be met.

Types of investors involved



Consultative groups

- Global Preparers Forum
- Capital Markets Advisory Committee
- Accounting Standards Advisory Forum
- IFRS Taxonomy Consultative Group

Proposed amendments to IFRS 13—Overview

What is the issue?

Investors say fair value measurement disclosures applying IFRS 13 generally contain information that meets their needs. However, these disclosures often contain detailed information about fair value measurements that are not material to the financial statements. These disclosures are also costly for companies to prepare.

At the same time, investors say there is sometimes limited information about the fair value measurements that are material to the company's financial statements.

What is the Board proposing?

The Board proposes to replace the disclosure requirements in IFRS 13 with a new set of requirements developed applying the proposed Guidance.

How do the Board's proposals respond to the issue?

Applying the proposed Guidance

The Board has developed overall and specific disclosure objectives that describe investor information needs and require companies to exercise judgement about what to disclose to meet those needs.

The proposals equip companies to make those judgements by explaining why information is important to investors and how investors might use information in their analysis.

Focus on the appropriate level of detail

The proposals require companies to consider the level of detail necessary to satisfy the disclosure objectives and ensure that relevant information is not obscured by insignificant detail.

Remove a perceived 'checklist'

The proposals avoid reference to particular levels of the fair value hierarchy—removing any perception that detailed disclosures are required about particular fair value measurements irrespective of materiality. The Board took this approach so that companies can focus on disclosing relevant information about material fair value measurements and avoid applying the requirements like a checklist.

Retain information investors find useful

The Board has included in the proposals the items of information that investors say are useful. In most cases, these items are included in the proposed items of information a company may use to meet disclosure objectives.

Proposed amendments to IFRS 13—Requirements

Overall disclosure objective	Disclose information to enable investors to understand the **company's exposure to uncertainties** associated with fair value measurements and understand: • the significance of assets and liabilities for the company's financial position and performance; • how their fair value measurements have been determined; and • how changes in fair value measurements could have affected the financial statements at the reporting period end.

	Disclose information to enable investors to understand:	Investors can use this information to:
Specific disclosure objectives Each specific disclosure objective is also accompanied by proposed items of information that a company may, or in some cases is required to, disclose to satisfy that objective.	the amount, nature and other characteristics of assets and liabilities and how those characteristics relate to categorisation in the fair value hierarchy.[1]	• assess the relative subjectivity in how the company has categorised measurements in the fair value hierarchy. • evaluate the effect of fair value measurements on the company's financial position.
	the significant techniques and inputs used in determining fair value measurements.	• assess sources of measurement uncertainty in how the company has determined the fair value measurements.
	alternative fair value measurements using inputs that were reasonably possible at the reporting period end.	• evaluate the possible outcomes of the fair value measurements at the reporting period end. • evaluate how those possible outcomes might affect future cash flows.
	the significant reasons for changes in the fair value measurements during the reporting period.	• evaluate how transactions and other events affected the company's financial position and performance. • identify amounts to include in their analyses.

1 The Board also proposes to include a similar 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.

Proposed amendments to IAS 19—Overview

What is the issue?

Investors say employee benefit disclosures applying IAS 19 often do not meet their needs, particularly about defined benefit plans. They often receive insufficient information about the cash flow effects of these plans, and detailed information that they find less useful, such as detailed sensitivity analysis.

At the same time, companies say employee benefit disclosures are onerous to prepare. They agree that information about cash flow effects is important and would be less onerous to prepare than many of the detailed disclosures that investors find less useful.

Investors also highlight challenges with communication effectiveness. For example, they often struggle to reconcile detailed employee benefit disclosures to the related amounts in the primary financial statements.

What is the Board proposing?

The Board proposes to replace the disclosure requirements in IAS 19 with a new set of requirements developed applying the proposed Guidance.

How do the Board's proposals respond to the issue?

Applying the proposed Guidance

The Board has developed overall and specific disclosure objectives that describe investor information needs and require companies to exercise judgement about what to disclose to meet those needs.

The proposals equip companies to make those judgements by explaining why information is important to investors and how investors might use information in their analysis.

Focus on communication effectiveness

The proposals require companies to disclose quantitative breakdowns of the amounts in the primary financial statements—some describe this as an executive summary of defined benefit plans. This responds to investor concerns about reconciling disclosures about defined benefit plans to the primary financial statements.

Require information about cash flow effects

The proposals require companies to disclose information about the expected effects of the defined benefit obligation on future cash flows. This responds directly to investor information needs. The proposals contain application guidance and illustrative examples to help companies determine how to satisfy this important objective.

Disclose only information investors find useful

The proposals do not require companies to provide information about defined benefit plans that investors described as less useful. For example, a detailed assumption-by-assumption sensitivity analysis.

Proposed amendments to IAS 19—Requirements

Disclosure objectives for defined benefit plans

Overall disclosure objective	Disclose information that enables investors to assess the effect of defined benefit plans on the company's financial position, financial performance and cash flows and evaluate the risks and uncertainties associated with the company's defined benefit plans.

	Disclose information to enable investors to understand:	Investors can use this information to:
Specific disclosure objectives Each specific disclosure objective is also accompanied by proposed items of information that a company may, or in some cases is required to, disclose to satisfy that objective.	the amounts and components of amounts in the statements of financial position, financial performance and cash flows.	• navigate detailed disclosures about the plans and reconcile to the primary financial statements. • identify amounts to include in their analyses.
	the nature of the benefits provided, nature and extent of risks the company is exposed to, and the company's strategies for managing the plans and identified risks.	• assess how the company intends to deliver promised benefits. • evaluate how risks might affect the company's ability to deliver benefits in future.
	expected effects of the defined benefit obligation on the company's future cash flows and nature of those effects.	• assess the effect of the obligation on future cash flows. • evaluate how the obligation may affect the company's economic resources.
	period for making future payments to members of plans that are closed to new members.	• understand how long closed defined benefit plans will continue to affect the company's financial statements.
	the significant actuarial assumptions used in determining the defined benefit obligation.	• assess sources of measurement uncertainty in how the company has determined the obligation.
	the significant reasons for changes in the amounts in the statement of financial position during the reporting period.	• evaluate how transactions and other events affected the company's financial position and performance. • identify amounts to include in their analyses.

Proposed amendments to IAS 19—Requirements

(continued)

	In response to investor needs, the proposals require companies to comply with...
Defined contribution plans **Short-term employee benefit plans**	an overall disclosure objective to disclose information that enables investors to understand how the plan affects the company's financial performance and cash flows. In the Board's view, these plans are unlikely to significantly affect a company's financial position at the end of the reporting period.
Termination benefits **Other long-term employee benefit plans**	an overall disclosure objective to disclose information for investors to understand the nature of the plan and how the plan affects the company's financial position, financial performance and cash flows. In the Board's view, these plans can vary widely in nature and significantly affect all of the primary financial statements.
Multi-employer plans **Defined benefit plans that share risks between entities under common control**	• all the disclosure objectives for defined benefit plans (see page 11), if the plan uses defined benefit accounting; or • a specific disclosure objective about the nature and risks of defined benefit plans (see page 11) and the overall disclosure objective for defined contribution plans, if the plan uses defined contribution accounting.[2] In the Board's view, regardless of the method of accounting, companies participating in these plans are exposed to risks similar to those that exist in a single company plan. The Board still expects some risks to be specific to these plans, and therefore proposes examples of information that might enable a company to meet the disclosure objective about nature and risks for these plans.

2 IAS 19 permits a company with a multi-employer defined benefit plan to account for the plan as if it were a defined contribution plan, if there is insufficient information to use defined benefit accounting (paragraph 36 of IAS 19). The Standard also permits a company with a defined benefit plan that shares risks between entities under common control to account for its participation by recognising a cost equal to its contribution payable under certain circumstances (paragraph 41 of IAS 19).

What stakeholder input is the Board looking for?

The Exposure Draft sets out the proposed Guidance for developing and drafting disclosure requirements in IFRS Standards, together with the proposed amendments to the disclosure requirements in IFRS 13 and IAS 19. The Board is seeking stakeholders' input on both:

- whether disclosure requirements developed applying the proposed Guidance would lead to more decision-useful information for investors.
- the proposed amendments to IFRS 13 and IAS 19. These proposals allow stakeholders to understand what disclosure requirements developed applying the proposed Guidance would look like.

The Board's next step is to consider stakeholders' input in determining whether and how to (i) use the proposed Guidance for future standard-setting activities, and (ii) develop final disclosure requirements for the amendments to IFRS 13 and IAS 19.

The Board is seeking feedback on whether the proposals would be an effective catalyst for change, for example...

...would the proposals allow companies to:		...would the proposals:
avoid applying disclosure requirements like a checklist?	make effective materiality judgements?	**lead to better information for investors?**
eliminate immaterial disclosures?	identify when additional or different information needs to be disclosed?	give auditors and regulators a basis for challenging judgement instead of relying on a checklist?
better understand investor needs and identify information that would meet those needs?	determine how best to satisfy disclosure objectives in a company's own circumstances?	lead to benefits that exceed costs?

Information for respondents

The deadline for comments on the Exposure Draft is 21 October 2021

You can submit comments on our 'Open for comment documents' page at: www.ifrs.org/projects/open-for-comment/.

Stay informed

To stay up to date with the latest developments on this project and to sign up for email alerts, please visit www.ifrs.org/projects/work-plan/standards-level-review-of-disclosures/.

Exposure Draft package

The Exposure Draft includes:

- questions for respondents; and
- the Board's detailed proposals, in the form of proposed Guidance for the Board and proposed amendments to IFRS 13 and IAS 19.

The Basis for Conclusions on the Exposure Draft includes:

- a summary of the Board's considerations in developing its proposals; and
- an analysis of the expected effects of the proposals.

The Board has also published proposed non-mandatory illustrative examples.

This document

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Notes

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