March 2021

IFRS® Standards
Exposure Draft ED/2021/3

Disclosure Requirements in IFRS Standards—A Pilot Approach

Proposed amendments to IFRS 13 and IAS 19

Comments to be received by 21 October 2021

IASB®

IFRS®

Exposure Draft

Disclosure Requirements in IFRS Standards—A Pilot Approach

Proposed amendments to IFRS 13 and IAS 19

Comments to be received by 21 October 2021

Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* is published by the International Accounting Standards Board (Board) for comment only. Comments need to be received by **21 October 2021** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

ISBN for this part: 978-1-914113-16-1

ISBN for complete publication (two parts): 978-1-914113-15-4

Copies of Board publications may be ordered from the Foundation by emailing customerservices@ifrs.org or visiting our shop at https://shop.ifrs.org.

IFRS®

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office in the Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD.

CONTENTS

Introduction

Why is the Board publishing this Exposure Draft?

The International Accounting Standards Board (Board) has developed guidance for itself when developing and drafting disclosure requirements in IFRS Standards in future (proposed Guidance). The Board has applied the proposed Guidance to develop proposed amendments to the disclosure sections of IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*. The Board is publishing this Exposure Draft to obtain feedback on both the proposed Guidance and the proposed amendments to IFRS 13 and IAS 19.

Stakeholders have told the Board they have three main concerns about information disclosed in financial statements. Collectively referred to as the 'disclosure problem', these concerns are that financial statements contain:

(a) not enough relevant information;

(b) too much irrelevant information; and

(c) ineffective communication of the information provided.

The feedback led the Board to establish the Disclosure Initiative, a portfolio of projects exploring how to improve the effectiveness of disclosures in financial statements. In March 2017, the Board issued the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper) to obtain feedback on possible approaches to address the disclosure problem.

Many respondents to the Discussion Paper agreed with the Board that the disclosure problem is multi-faceted and that addressing it will require the input of all stakeholders. Furthermore, almost all respondents to the Discussion Paper said that one contributor to the disclosure problem is the way the Board develops and drafts disclosure requirements in IFRS Standards.

In response to the feedback, the Board decided to undertake the *Disclosure Initiative—Targeted Standards-level Review of Disclosures* project. The Board developed the proposals in this Exposure Draft as part of that project. The objective of the project is to improve how the Board develops and drafts disclosure requirements in IFRS Standards, so that entities applying those requirements provide more useful information to users of financial statements. The Board decided to take the following approach to meet this objective:

(a) develop the proposed Guidance;

(b) apply the proposed Guidance to the disclosure sections of two test Standards—IFRS 13 and IAS 19—to improve the usefulness of disclosures in financial statements prepared applying those Standards, and to test and improve the proposed Guidance; and

(c) prepare an Exposure Draft of amendments to the test Standards, incorporating the proposed Guidance.

Proposals in this Exposure Draft

This Exposure Draft includes:

(a) the proposed Guidance;

(b) proposed amendments to IFRS 13 that comprise:

- (i) an overall disclosure objective and specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position;
- (ii) a 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; and
- (iii) items of information to enable an entity to meet the specific disclosure objectives;

(c) proposed amendments to IAS 19 that comprise:

- (i) overall disclosure objectives for employee benefits in the scope of IAS 19;
- (ii) specific disclosure objectives for defined benefit plans; and
- (iii) items of information to enable an entity to meet the specific disclosure objectives for defined benefit plans; and

(d) proposed consequential amendments to IAS 34 *Interim Financial Reporting* and IFRIC 17 *Distributions of Non-cash Assets to Owners*.

This Exposure Draft refers to information needed to meet user needs described in disclosure objectives. An entity applies the definition of material in IAS 1 *Presentation of Financial Statements* to judge whether information is material for inclusion in the financial statements.

Who would be affected by the project proposals?

The proposed Guidance is a document for the Board. The objective of the proposed Guidance is to help the Board develop disclosure requirements that result in more decision-useful information in financial statements in future. If the Board were to apply the approach in the proposed Guidance, all entities, auditors, regulators and users of financial statements prepared applying IFRS Standards could be affected. The Board is therefore interested in feedback from all those interested in financial reporting on the practical effects of the proposed Guidance.

Immediate effects

The Board proposes in this Exposure Draft to amend IFRS 13 and IAS 19 by applying the proposed Guidance. The Board expects these proposals to affect entities that disclose information in financial statements about fair value measurements and employee benefits in accordance with IFRS Standards, and all users of those financial statements. The proposals are also relevant to auditors who audit information about fair value measurements and employee benefits, and regulators who enforce compliance with the disclosure requirements in IFRS 13 and IAS 19.

The Board is currently testing the proposed Guidance only on the disclosure sections of IFRS 13 and IAS 19. The proposed Guidance will therefore have no immediate effect on the disclosure sections of other IFRS Standards.

Future effects

The Board will consider feedback on this Exposure Draft in determining whether to use the proposed Guidance in its standard-setting activities in future. In doing so, the Board will consider the extent to which feedback from its consultations on this Exposure Draft suggests that applying the proposed Guidance contributes to addressing the disclosure problem, and helps stakeholders improve the usefulness of disclosures in the notes for users of financial statements.

If the Board decides to use the proposed Guidance in its standard-setting activities in future, the proposed Guidance may be updated in the light of the feedback on this Exposure Draft. Any resulting Guidance would also be changed over time, drawing on the Board's and stakeholders' experience of its application. Any decision to amend the disclosure sections of other IFRS Standards—or to develop a disclosure section for a new IFRS Standard—using the proposed Guidance will require the Board to go through its normal due process for proposing a new IFRS Standard or an amendment to a Standard.

Next steps

The Board will consider comment letters and other feedback from its consultations on this Exposure Draft before deciding whether to finalise the proposed amendments to the disclosure sections of IFRS 13 and IAS 19. Feedback will also help the Board determine whether, and how, to improve the proposed Guidance if, after testing on IFRS 13 and IAS 19, the Board decides to use the proposed Guidance in its standard-setting activities.

Invitation to comment

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the proposals that is difficult to translate; and

(e) include any alternative the Board should consider, if applicable.

The Board is requesting comments only on matters addressed in this Exposure Draft.

The proposed Guidance for developing disclosure requirements in IFRS Standards in future

Paragraphs DG1–DG13 of this Exposure Draft describe the proposed Guidance. Applying the proposed Guidance, the Board would:

(a) require entities to comply with **overall disclosure objectives** that describe the overall information needs of users of financial statements. To comply with those objectives, entities would be required to assess whether information provided in the notes by complying with specific disclosure objectives is sufficient to meet the overall user information needs. If such information is insufficient, entities would need to provide additional information to meet those user information needs.

(b) require entities to comply with **specific disclosure objectives** that describe the detailed information needs of users of financial statements. To comply with those objectives, entities would be required to disclose all material information for a transaction, other event or condition needed to meet the detailed user information needs. Specific disclosure objectives would be supplemented with explanations of what the information provided to meet those objectives is intended to help users of financial statements do.

(c) identify **items of information to meet each specific disclosure objective**. Entities would need to apply judgement to determine the information they should disclose to satisfy the specific disclosure objective. The Board would require entities to provide specific items of information only when the Board has determined that those items of information are essential to meet the specific disclosure objective. Otherwise, and in most cases, the Board would identify specific items of information that entities would not be required to disclose. Instead, those items of information would be examples of what entities may disclose to meet the specific disclosure objective.

Figure 1 uses one of the proposals for IFRS 13 to illustrate the proposed Guidance.[1] This example includes a required item of information; however, such an item of information would be provided only in some cases.

Figure 1—Proposed Guidance for developing disclosure requirements in IFRS Standards in future

Overall disclosure objective An entity **shall** disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition.	**Requirement**	To assess whether information provided in the notes meets overall user information needs (eg should additional information be disclosed?)
Specific disclosure objective(s) For recurring fair value measurements, an entity **shall** disclose information that enables users of financial statements to understand the significant reasons for changes in the fair value measurements of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, from the beginning of the reporting period to the end of that period.	**Requirement**	To disclose all material information needed to meet detailed user information needs on specific topics
Explanation supporting the specific disclosure objective The information required by [the specific disclosure objective] **is intended to** help users of financial statements evaluate how transactions and other events during the reporting period have affected the entity's financial position and performance, and therefore identify amounts to include in their analyses.	**Explanatory information**	To help entities better understand the specific disclosure objective and facilitate their judgement as to whether information is material to disclose
Items of information In meeting [the specific disclosure objective] for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, an entity **shall** disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements.	**Requirement**	To disclose material information that is essential in order to meet the specific disclosure objective
While not mandatory, the following information **may enable** an entity to meet [the specific disclosure objective]: (a) an explanation of the significant reasons for changes in recurring fair value measurements other than those categorised in Level 3 of the fair value hierarchy. …	**Non-mandatory items**	To identify potentially material information that an entity may disclose to meet the specific disclosure objective, if relevant to the entity's circumstances

1 See paragraphs 100 and 114–117 of the [Draft] Amendments to IFRS 13.

Question 1—Using overall disclosure objectives

Paragraphs DG5–DG7 of this Exposure Draft explain how the Board proposes to use overall disclosure objectives in future.

(a) Do you agree that the Board 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?

Question 2—Using specific disclosure objectives and the disclosure problem

Paragraphs DG8–DG10 of this Exposure Draft explain how the Board 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?

Question 3—Increased application of judgement
Paragraphs DG2–DG3 and DG8–DG13 of this Exposure Draft explain why, in future, the Board 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.

Question 4—Describing items of information to promote the use of judgement
The Board 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 Board's reasons for this language and alternative options that the Board 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?

Question 5—Other comments on the proposed Guidance
Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the Board 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).

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

Assets and liabilities measured at fair value in the statement of financial position after initial recognition

In paragraphs 100–101 of the [Draft] amendments to IFRS 13, the Board proposes an overall disclosure objective that requires an entity to disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition. The information shall enable users of financial statements to understand:

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

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

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

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 Board'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?

For assets and liabilities measured at fair value in the statement of financial position after initial recognition, the Board proposes specific disclosure objectives that require an entity to disclose information about the:

(a) assets and liabilities within each level of the fair value hierarchy (paragraphs 103–106 of the [Draft] amendments to IFRS 13);

(b) measurement uncertainties associated with their fair value measurements (paragraphs 107–110 of the [Draft] amendments to IFRS 13);

(c) reasonably possible alternative fair value measurements (paragraphs 111–113 of the [Draft] amendments to IFRS 13); and

(d) reasons for changes in their fair value measurements (paragraphs 114–117 of the [Draft] amendments to IFRS 13).

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 Board’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 Board 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.

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 Board’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 Board 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?

Assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

In paragraph 118 of the [Draft] amendments to IFRS 13, the Board proposes a specific disclosure objective that requires an entity to disclose information that enables users of financial statements to understand:

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

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

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 Board'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?

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 Board'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?

Other

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?

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

Defined benefit plans

In paragraphs 147A–147C of the [Draft] amendments to IAS 19, the Board proposes an overall disclosure objective that requires an entity to disclose information that enables users of financial statements to:

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

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

Question 12—Overall disclosure objective for defined benefit plans
Paragraphs BC107–BC109 of the Basis for Conclusions describe the Board'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?

The Board proposes specific disclosure objectives that require an entity to disclose information about:

(a) amounts in the primary financial statements relating to defined benefit plans (paragraphs 147D–147F of the [Draft] amendments to IAS 19);

(b) the nature of, and risks associated with, defined benefit plans (paragraphs 147G–147I of the [Draft] amendments to IAS 19);

(c) expected future cash flows relating to defined benefit plans (paragraphs 147J–147M and A2–A7 of the [Draft] amendments to IAS 19);

(d) future payments to members of defined benefit plans that are closed to new members (paragraphs 147N–147P of the [Draft] amendments to IAS 19);

(e) measurement uncertainties associated with the defined benefit obligation (paragraphs 147Q–147S of the [Draft] amendments to IAS 19); and

(f) reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans (paragraphs 147T–147W of the [Draft] amendments to IAS 19).

Question 13—Specific disclosure objectives for defined benefit plans

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

Question 14—Information to meet the specific disclosure objectives for defined benefit plans
Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans, and discuss information that the Board 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?

Defined contribution plans

In paragraph 54A of the [Draft] amendments to IAS 19, the Board proposes an overall disclosure objective that requires an entity to 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.

Question 15—Overall disclosure objective for defined contribution plans
Paragraphs BC156–BC158 of the Basis for Conclusions describe the Board'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?

Multi-employer plans and defined benefit plans that share risks between entities under common control

The Board proposes that an entity comply with the overall disclosure objective for defined contribution plans if the entity classifies its multi-employer plan as a defined contribution plan (paragraph 54A of the [Draft] amendments to IAS 19).

The Board proposes that an entity comply with the overall disclosure objective for defined contribution plans and the specific disclosure objective about the nature of, and risks associated with, defined benefit plans if the entity:

(a) accounts for a multi-employer defined benefit plan as if it were a defined contribution plan (paragraph 148A of the [Draft] amendments to IAS 19); or

(b) participates in a defined benefit plan that shares risks between entities under common control and accounts for the contribution payable for the period in accordance with paragraph 41 of IAS 19 (paragraph 149A of the [Draft] amendments to IAS 19).

The Board proposes that an entity comply with the overall disclosure objective and specific disclosure objectives for defined benefit plans if the entity:

(a) accounts for a multi-employer defined benefit plan as a defined benefit plan (paragraph 148C of the [Draft] amendments to IAS 19); or

(b) participates in a defined benefit plan that shares risks between entities under common control and accounts for an allocation of the net defined benefit cost in accordance with paragraph 41 of IAS 19 (paragraph 149C of the [Draft] amendments to IAS 19).

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 Board'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?

Other types of employee benefit plans

The Board proposes overall disclosure objectives that require an entity to disclose information that enables users of financial statements to understand:

(a) the effect of short-term employee benefits on the entity's financial performance and cash flows (paragraph 25A of the [Draft] amendments to IAS 19);

(b) the nature of other long-term employee benefits and the effect of those benefits on the entity's financial position, financial performance and cash flows (paragraph 158A of the [Draft] amendments to IAS 19); and

(c) the nature of termination benefits and the effect of those benefits on the entity's financial position, financial performance and cash flows (paragraph 171A of the [Draft] amendments to IAS 19).

Question 17—Disclosures for other types of employee benefit plans
Paragraphs BC167–BC170 of the Basis for Conclusions describe the Board'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?

Other

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?

Deadline

The Board will consider all written comments received by 21 October 2021.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

[Draft] Guidance for the Board to use when developing and drafting disclosure requirements in IFRS Standards

The [Draft] Guidance for the Board is an important part of this Exposure Draft. It proposes a new approach to developing and drafting disclosure requirements in IFRS Standards. The Board used this approach to develop the proposed amendments to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* set out in this Exposure Draft. The [Draft] Guidance for the Board is not part of the Standards. Instead, it is an internal document that explains how the Board will develop disclosure requirements in future if, after testing on IFRS 13 and IAS 19, the Board decides to use the proposed approach in its standard setting activities.

Overview

DG1 This [Draft] Guidance for the Board explains how the Board will modify disclosure requirements in IFRS Standards to enhance the use of judgement. In summary, the Board will:

(a) require entities to comply with overall disclosure objectives that describe the overall information needs of users of financial statements. To comply with those objectives, entities would be required to assess whether information provided in the notes by complying with the specific disclosure objectives meets the overall user information needs.

(b) require entities to comply with specific disclosure objectives that describe the detailed information needs of users of financial statements. To comply with those objectives, entities would be required to disclose all material information needed to meet the detailed user information needs.

(c) supplement specific disclosure objectives with explanations of what the information provided to meet those objectives is intended to help users of financial statements do.

(d) link each specific disclosure objective with items of information an entity may, or in some cases is required to, disclose to satisfy the objective.

DG2 This approach aims to shift the focus from applying disclosure requirements like a checklist to determining whether a specific disclosure objective has been satisfied by:

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

(b) typically using the following less prescriptive language when referring to items of information in the Standards—‘while not mandatory, the following information may enable an entity to meet the disclosure objective’.

DG3 The language described in paragraph DG2 will require an entity to satisfy disclosure objectives that describe user information needs. An entity could not be regarded as achieving compliance by simply disclosing a 'checklist' of information. Instead, entities, auditors and others will need to apply judgement to determine:

(a) which information is material (see paragraph DG4); and

(b) whether the information provided satisfies disclosure objectives.

DG4 The Board will, 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. Multiple or duplicate references to materiality can introduce confusion about how the concept applies to a Standard in which it is not mentioned.

Overall disclosure objectives

DG5 The Board will use overall disclosure objectives within individual IFRS Standards to provide a narrower, more Standard-specific focus than the objectives of general purpose financial reporting and financial statements in the *Conceptual Framework for Financial Reporting* and IAS 1 *Presentation of Financial Statements*.

DG6 Within the context of an individual IFRS Standard, overall disclosure objectives will describe the overall information needs of users of financial statements and require an entity to disclose information that meets those needs. To comply with this requirement, entities will need to consider whether the information provided by complying with the specific disclosure objectives (paragraphs DG8–DG10) meets those overall user information needs. For example, to comply with the overall disclosure objectives in a Standard, an entity might need to provide additional, entity-specific information that is not directly required by the specific disclosure objectives in that Standard.

DG7 Overall disclosure objectives will also provide helpful context, and incorporate other broad considerations, that entities are required to consider when applying the specific disclosure objectives in an IFRS Standard. For example, overall disclosure objectives might incorporate considerations about aggregation and disaggregation specific to the disclosure section of a particular Standard.

Specific disclosure objectives

DG8 Within the context of an individual IFRS Standard, specific disclosure objectives will describe the detailed information needs of users of financial statements and require an entity to disclose all material information that enables the user understanding described in the objectives to be achieved. Specific disclosure objectives will require entities to apply judgement effectively because, in order to comply with the objectives, entities will need to assess whether the information provided is sufficient to meet detailed user information needs.

DG9 The specific disclosure objectives will be accompanied by a separate paragraph that provides context by explaining what the information provided to meet those objectives is intended to help users of financial statements do. For example, the Board might explain that information to satisfy a particular specific disclosure objective is intended to help a user perform a particular analysis, assessment or evaluation. These explanations are intended to help entities better understand the specific disclosure objectives and facilitate their judgement as to whether information is material to their financial statements.

DG10 When developing specific disclosure objectives, the Board will balance entity-specific information with information that is comparable across entities. Users of financial statements consistently highlight the importance of both entity-specific information and comparable information, while also acknowledging some tension between these two types of information. By focusing the compliance requirement on specific disclosure objectives, the Board will require entities to apply judgement and focus their disclosures on information that is material in their own specific circumstances. By identifying specific items of information in the Standards (see paragraphs DG11–DG13), the Board will help to achieve comparability of information between entities for which similar information is material.

Items of information to meet specific disclosure objectives

DG11 The Board will identify items of information that an entity may, or in some cases is required to, disclose to meet each specific disclosure objective. The Board will explicitly link every item of information included in the disclosure section of an IFRS Standard to one or more specific disclosure objectives. This will provide clarity about the relationship between the specific disclosure objectives and items of information and, therefore, help entities to make effective judgements about whether information is material.

DG12 The items of information in paragraph DG11 are to help entities apply judgement and determine how to satisfy the specific disclosure objective. As a result, an entity may need to disclose one, some or all of the items of information identified in the Standard. An entity may also need to disclose information in addition to that identified in the Standard to meet the detailed user information needs described in the specific disclosure objectives. Disclosure of immaterial information will not help an entity to satisfy the specific disclosure objectives because such information will not meet the user information needs described in those objectives.

DG13 At times the Board may identify information that, if material to an entity, is always needed to meet the detailed information needs of users of financial statements described in the specific disclosure objective. In these cases, the Board will, in the first instance, aim to develop a disclosure objective that is specific enough to make clear what information would satisfy the objective. If that is not possible, the Board will use prescriptive language to require disclosure of a particular item of information. In such cases, the Board will explain, in the Basis for Conclusions, why the item is essential to satisfying the specific disclosure objective.

[Draft] Amendments to IFRS 13 *Fair Value Measurement*

Paragraph 4 has not been amended but is included for ease of reference. Paragraphs 91–98 are deleted but, for ease of reading, the deleted text of these paragraphs is not included. Paragraph 99 is amended. Paragraphs 100–121 and their related headings are added. New text is underlined and deleted text is struck through.

Objective

...

4 The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this IFRS shall be applied to an entity's own equity instruments measured at fair value.

...

Disclosure

91 **[Deleted]**

92 [Deleted]

93 [Deleted]

94 [Deleted]

95 [Deleted]

96 [Deleted]

97 [Deleted]

98 [Deleted]

99 An entity shall provide the quantitative information needed to meet the disclosure objectives in ~~present the quantitative disclosures required by~~ this IFRS in a tabular format unless another format is more appropriate.

Assets and liabilities measured at fair value in the statement of financial position after initial recognition

Overall disclosure objective

100 **An entity shall disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements of classes of assets and liabilities measured at fair value in the statement of financial position after initial recognition. This information shall enable users of financial statements to understand:**

(a) **the significance of those classes of assets and liabilities (see paragraphs B48–B50) for the entity's financial position and performance;**

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

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

101 An entity shall consider the level of detail necessary to satisfy the disclosure objectives set out in this IFRS and ensure that relevant information is not obscured by the inclusion of insignificant detail.

102 For the purposes of applying paragraphs 103–117 of this IFRS, recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).

Specific disclosure objectives

Assets and liabilities within each level of the fair value hierarchy

103 For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand:

(a) **the amount, nature and other characteristics of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition; and**

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

104 The information required by paragraph 103 is intended to help users of financial statements assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position at the end of the reporting period.

105 In meeting the disclosure objective in paragraph 103, an entity shall disclose the fair value measurement for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).

106 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 103:

(a) a description of the nature, risks and other characteristics of the classes of assets and liabilities in each level of the fair value hierarchy (or a cross-reference to where that information is disclosed elsewhere in the financial statements).

(b) a description of inseparable third-party credit enhancement for a liability and whether such an enhancement is reflected in the fair value measurement.

Measurement uncertainties associated with fair value measurements

107 **For recurring and non-recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition.**

108 The information required by paragraph 107 is intended to help users of financial statements assess the sources of measurement uncertainties in the entity's determination of the fair value measurements.

109 In meeting the disclosure objective in paragraph 107, an entity shall disclose whether it makes the accounting policy decision to use the exception in paragraph 48 for measuring the fair value of a group of financial assets and financial liabilities.

110 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 107:

(a) a description of the significant valuation techniques used in the fair value measurements.

(b) a description of a change in the valuation techniques and the reason(s) for making the change.

(c) quantitative or narrative information about the significant inputs used in the fair value measurements.

(d) a statement when the highest and best use of a non-financial asset differs from its current use, and an explanation of why.

Reasonably possible alternative fair value measurements

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

112 The information required by paragraph 111 is intended to help users of financial statements evaluate the possible outcomes of the fair value measurements at the end of the reporting period, and evaluate how those possible outcomes might affect the future cash flows of the entity.

113 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 111:

(a) a description of the uncertainty caused by the significant inputs used in determining the fair value, if those inputs could have reasonably been different at the end of the reporting period and would have resulted in a significantly higher or lower fair value measurement.

(b) the range of alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period.

(c) an explanation of how the range of alternative fair value measurements in (b) was calculated.

(d) a description of interrelationships between the inputs used and how those interrelationships magnify or mitigate the effect of using inputs that were reasonably possible at the end of the reporting period on the fair value measurements.

Reasons for changes in fair value measurements

114 For recurring fair value measurements, an entity shall disclose information that enables users of financial statements to understand the significant reasons for changes in the fair value measurements of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition, from the beginning of the reporting period to the end of that period.

115 The information required by paragraph 114 is intended to help users of financial statements evaluate how transactions and other events during the reporting period have affected the entity's financial position and performance, and therefore identify amounts to include in their analyses.

116 In meeting the disclosure objective in paragraph 114 for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, an entity shall disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the fair value measurements. Reasons for changes that might be appropriate include, but are not limited to, the following:

(a) total gains or losses for the reporting period recognised in profit or loss that are attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period. In such a case, the entity identifies the line item(s) in which those gains or losses are recognised.

(b) total gains or losses for the reporting period recognised in profit or loss that are attributable to realised gains or losses. In such a case, the entity identifies the line item(s) in which those gains or losses are recognised.

(c) total gains or losses for the reporting period recognised in other comprehensive income. In such a case, the entity identifies the line item(s) in which those gains or losses are recognised.

(d) purchases.

(e) sales.

(f) issues.

(g) settlements.

(h) the effect of foreign exchange rate differences.

(i) the amount of transfers into and out of the level of the fair value hierarchy.

117 While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 114:

(a) an explanation of the significant reasons for changes (see paragraph 116) in recurring fair value measurements other than those categorised in Level 3 of the fair value hierarchy.

(b) the reasons for transfers between levels of the fair value hierarchy during the reporting period.

(c) the entity's policy for determining when transfers between levels are deemed to have occurred. Examples of the policy for the timing of those transfers include the date of the event or change in circumstances that caused the transfer, the beginning of the reporting period and the end of the reporting period.

Assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

118 An entity shall disclose information that enables users of financial statements to understand:

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

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

119 The information required by paragraph 118 is intended to help users of financial statements assess the relative subjectivity in the entity's assessment of where the fair value measurements of the assets and liabilities are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position and financial performance.

120 In meeting the disclosure objective in paragraph 118, an entity shall disclose the fair value measurement for each class of assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed by the level of the fair value hierarchy within which those measurements are categorised in their entirety (Level 1, 2 or 3).

121 While not mandatory, a description of the nature, risks and other characteristics of the classes of assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed may enable an entity to meet the disclosure objective in paragraph 118. This information can be provided by cross-reference to where that information is disclosed elsewhere in the financial statements.

[Draft] Amendments to Appendix B—Application guidance for IFRS 13

The note in italic type immediately following the title of the Appendix is amended. Paragraph B1 has not been amended but is included for ease of reference. Paragraphs B48–B50 and their related heading are added. New text is underlined and deleted text is struck through.

This appendix is an integral part of the IFRS. It describes the application of paragraphs 1–121 ~~1–99~~ and has the same authority as the other parts of the IFRS.

B1 The judgements applied in different valuation situations may be different. This appendix describes the judgements that might apply when an entity measures fair value in different valuation situations.

...

Determining classes of assets and liabilities for disclosures about fair value measurements

B48 Determining the appropriate classes of assets and liabilities for which disclosures about fair value measurements should be made requires judgement. An entity considers:

(a) the nature, risks and other characteristics of the asset or liability; and

(b) the level of the fair value hierarchy within which the fair value measurement is categorised.

B49 The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy than for fair value measurements in other levels because those measurements are subject to a greater degree of uncertainty and subjectivity. Information provided about a class of assets and liabilities in the notes to the financial statements will often require greater disaggregation than the line items presented in the statement of financial position. However, in complying with the disclosure objectives in this IFRS, an entity shall provide enough information to permit reconciliation to the line items presented in the statement of financial position.

B50 If another IFRS specifies the class for an asset or a liability, an entity may use that class to provide information to meet the disclosure objectives in this IFRS if that class is consistent with the guidance in paragraphs B48–B49.

[Draft] Amendments to Appendix C—Effective date and transition for IFRS 13

Paragraph C7 is added. New text is underlined.

...

C7 [Draft] *Disclosure Requirements in IFRS Standards—A Pilot Approach* which amended IFRS 13 and IAS 19, issued in [the publication date of the final amendments], deleted paragraphs 91–98, amended paragraph 99 and added paragraphs 100–121 and B48–B50. An entity shall apply those amendments from the first annual reporting period beginning on or after [effective date]. Earlier application of the amendments is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

[Draft] Amendments to IAS 19 *Employee Benefits*

Paragraphs 24, 33–34, 36, 42, 118, 150 and 173 are amended. Paragraphs 25, 53–54, 135–147, 148, 149, 151–152, 158 and 171 are deleted but, for ease of reading, the deleted text of these paragraphs is not included. Paragraphs 25A, 54A, 147A–147W, 148A–148D, 149A–149D, 158A, 171A and 180 and related headings are added. Paragraph 41 has not been amended but is included for ease of reference. The headings above paragraphs 139, 140, 145 and 151 are deleted. New text is underlined and deleted text is struck through.

...

Short-term employee benefits

...

Recognition and measurement

...

Profit-sharing and bonus plans

...

24 If profit-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 153–158A~~158~~).

Disclosure

25 [Deleted]

Overall disclosure objective

25A An entity shall disclose information that enables users of financial statements to understand the effect of short-term employee benefits on the entity's financial performance and cash flows.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

...

Multi-employer plans

...

33 **If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:**

(a) **account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**

(b) **disclose ~~the~~ information to meet the requirements in the disclosure objectives in paragraph 148C ~~required by paragraphs 135–148 (excluding paragraph 148(d))~~.**

34 **When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:**

(a) **account for the plan in accordance with paragraphs 51 and 52 as if it were a defined contribution plan; and**

(b) **disclose ~~the~~ information to meet the requirements in the disclosure objectives in paragraph 148A ~~required by paragraph 148~~.**

...

36 Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or

(b) the entity does not have access to sufficient information about the plan to satisfy the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses ~~the~~ information to meet the requirements in the disclosure objectives in paragraph 148A ~~required by paragraph 148~~.

...

Defined benefit plans that share risks between entities under common control

...

41 An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging to individual group entities the net defined benefit cost for the plan as a whole measured in accordance with this Standard, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their

separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

42 Participation in such a plan is a related party transaction for each individual group entity. An entity that recognises a cost equal to its contribution payable for the period shall therefore, in its separate or individual financial statements, disclose ~~the~~ information to meet the requirements in the disclosure objectives in paragraph 149A ~~required by paragraph 149~~. An entity that recognises a net defined benefit cost shall, in its separate or individual financial statements, disclose information to meet the requirements in the disclosure objectives in paragraph 149C.

...

Post-employment benefits: defined contribution plans

...

Disclosure

53 **[Deleted]**

54 [Deleted]

Overall disclosure objective

54A **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.**

Post-employment benefits: defined benefit plans

...

Recognition and measurement: plan assets

...

Reimbursements

...

118 When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 116 is relevant to such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. A description of the relationship ~~Paragraph 140(b) requires the entity to disclose a brief description of the link~~ between the reimbursement right and the related defined benefit obligation may enable the entity to meet the requirements in the disclosure objective in paragraph 147T.

...

Disclosure

135 **[Deleted]**

136 [Deleted]

137 [Deleted]

138 [Deleted]

~~Characteristics of defined benefit plans and risks associated with them~~

139 [Deleted]

~~Explanation of amounts in the financial statements~~

140 [Deleted]

141 [Deleted]

142 [Deleted]

143 [Deleted]

144 [Deleted]

~~Amount, timing and uncertainty of future cash flows~~

145 [Deleted]

146 [Deleted]

147 [Deleted]

Overall disclosure objective

147A **An entity shall disclose information that enables users of financial statements to:**

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

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

147B An entity shall aggregate or disaggregate information provided to meet the disclosure objectives about defined benefit plans set out in this Standard. In doing so, an entity ensures that relevant information is not obscured by either the inclusion of insignificant detail or the aggregation of items that have substantially different features or characteristics.

147C In applying paragraph 147B to aggregate or disaggregate information to meet the disclosure objectives about defined benefit plans in this Standard:

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

(b) an entity shall assess whether disclosures should be disaggregated to distinguish plans or groups of plans with different risks. Features an entity may use to disaggregate disclosures about plans include, but are not limited to:

(i) geographical region;

(ii) characteristics of the plan (for example, flat salary pension plans, final salary pension plans or post-employment medical plans);

(iii) regulatory environment;

(iv) reporting segment; and

(v) funding arrangement (for example, wholly unfunded, wholly funded, or partly funded).

Specific disclosure objectives

Amounts in the primary financial statements relating to defined benefit plans

147D **An entity shall disclose information that enables users of financial statements to understand the amounts, and components of those amounts, arising from defined benefit plans during the reporting period in the statements of financial position, financial performance and cash flows.**

147E The information required by paragraph 147D is intended to help users of financial statements:

(a) navigate detailed disclosures about defined benefit plans and reconcile them to the aggregated amounts presented in the primary financial statements; and

(b) identify amounts to include in their analyses.

147F In meeting the disclosure objective in paragraph 147D, an entity shall disclose:

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

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

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

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

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

Nature of, and risks associated with, defined benefit plans

147G **An entity shall disclose information that enables users of financial statements to understand the:**

(a) nature of the benefits provided by the defined benefit plans;

(b) nature and extent of the risks, in particular the investment risks, to which the defined benefit plans expose the entity; and

(c) strategies that the entity has in place to manage the defined benefit plans and the identified risks.

147H The information required by paragraph 147G is intended to help users of financial statements assess how an entity intends to deliver the benefits promised to members of the defined benefit plans, and evaluate how the risks associated with those plans may affect the entity's ability to deliver those benefits in future periods.

147I While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 147G:

(a) a description of the nature of the benefits provided by the plans.

(b) the status of the defined benefit plans, such as whether the plans are open or closed to new members.

(c) a description of plan amendments, curtailments and settlements in the reporting period.

(d) a description of how the plans are governed and managed, including any regulatory framework that affects how the plans operate.

(e) a description of plan-specific investment risks, including significant concentrations of risks. For example, if plan assets are primarily invested in one class of investments, an explanation of the risks to which such a concentration exposes the entity.

(f) a description of the policies and processes used by the entity, or the trustees or managers of the plans, to manage the identified risks.

(g) a description of the investment strategies for the plans, such as the use of asset-liability matching strategies.

(h) a breakdown of the fair value of plan assets by classes of assets that distinguish the risks and characteristics of those assets. Such a breakdown could include the fair value of the entity's transferable financial instruments held as plan assets and the fair value of plan assets used by the entity, such as property occupied by the entity.

(i) the expected return on the plan assets.

Expected future cash flows relating to defined benefit plans

147J **An entity shall disclose information that enables users of financial statements to understand the expected effects of the defined benefit obligation recognised at the end of the reporting period on the entity's future cash flows and the nature of those effects.**

147K The information required by paragraph 147J is intended to help users of financial statements:

(a) assess the effect of the defined benefit obligation on the entity's future cash flows; and

(b) evaluate how the defined benefit obligation may affect the entity's economic resources, for example, its ability to pay dividends.

147L While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 147J:

(a) a description of funding agreements or policies that affect expected future contributions to meet the defined benefit obligation recognised at the end of the reporting period. Such agreements could include those reached with trustees or managers of the plans.

(b) quantitative information about expected future contributions to meet the defined benefit obligation recognised at the end of the reporting period. Such information could include expected future contributions to the plan for funded plans or expected payments to plan participants for unfunded plans.

(c) a description of regulatory or other agreements that affect expected future contributions. Information about such agreements could include known minimum funding requirements or agreed funding commitments in appropriate time bands.

(d) information about the expected pattern or rate of expected future contributions. For example, whether expected future contributions are expected to be greater than, similar to or less than contributions made in the current reporting period, and why.

147M An entity provides information about the expected cash flow effects of its defined benefit obligation recognised at the end of the reporting period to meet the disclosure objective in paragraph 147J. However, an entity may provide information about the expected future cash flow effects for the defined benefit plan as a whole, without differentiating between those that meet the defined benefit obligation recognised at the end of the reporting period and other expected future cash flows, if the entity believes such information would better meet the disclosure objective. An entity shall explain the method used in determining the information to provide to meet the disclosure objective in paragraph 147J. Paragraphs A2–A7 of IAS 19 provide related application guidance.

Future payments to members of defined benefit plans that are closed to new members

147N **An entity shall disclose information that enables users of financial statements to understand the period over which payments will continue to be made to members of defined benefit plans that are closed to new members.**

147O The information required by paragraph 147N is intended to help users of financial statements understand the length of time over which the defined benefit obligation associated with plans that are closed to new members will continue to affect the entity's financial statements.

147P While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 147N:

(a) the weighted average duration of the defined benefit obligation.

(b) the number of years over which the benefits payable by the defined benefit plans are expected to be paid.

Measurement uncertainties associated with the defined benefit obligation

147Q **An entity shall disclose information that enables users of financial statements to understand the significant actuarial assumptions used in determining the defined benefit obligation.**

147R The information required by paragraph 147Q is intended to help users of financial statements assess the sources of measurement uncertainties in the entity's determination of the defined benefit obligation.

147S While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 147Q:

(a) the significant demographic and financial actuarial assumptions used to determine the defined benefit obligation.

(b) the entity's approach to determining the actuarial assumptions used, such as how the inflation rate was assessed, or the model used to determine longevity assumptions.

(c) the reasons why actuarial assumptions significantly changed during the reporting period.

(d) alternative actuarial assumptions reasonably possible at the end of the reporting period that could have significantly changed the defined benefit obligation.

(e) a description of how measurement uncertainty has affected measurement of the defined benefit obligation.

Reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans

147T **An entity shall disclose information that enables users of financial statements to understand the significant reasons for changes in the amounts recognised in the statement of financial position that relate to the defined benefit plans from the beginning of the reporting period to the end of that period.**

147U The information required by paragraph 147T is intended to help users of financial statements evaluate how transactions and other events during the reporting period that relate to the defined benefit plans have affected the entity's financial position and performance, and therefore identify amounts to include in their analyses.

147V In meeting the disclosure objective in paragraph 147T, an entity shall disclose a tabular reconciliation from opening balances to closing balances of the significant reasons for changes in the net defined benefit liability (asset). Reasons for changes that might be appropriate include, but are not limited to, the following:

(a) current and past service costs;

(b) interest income or expense;

(c) gains and losses from settlements;

(d) contributions into the plan by the entity;

(e) contributions into the plan by plan participants;

(f) benefits paid out to plan participants;

(g) the effect of changes in foreign exchange rates;

(h) the return on plan assets;

(i) actuarial gains or losses from changes in actuarial assumptions;

(j) actuarial gains or losses from changes in experience adjustments;

(k) the effect of business combinations and disposals; and

(l) changes in the effect of limiting a net defined benefit asset to the asset ceiling.

147W While not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph 147T:

(a) a narrative explanation or tabular reconciliation of the significant reasons for changes in reimbursement rights.

(b) a description of the relationship between reimbursement rights and the related defined benefit obligation.

Multi-employer plans

148 [Deleted]

148A An entity that accounts for its participation in a multi-employer defined benefit plan as if it were a defined contribution plan shall comply with the overall disclosure objective for defined contribution plans in paragraph 54A and the specific disclosure objective on the nature of, and risks associated with, defined benefit plans in paragraph 147G.

148B While not mandatory, the following information, in addition to that in paragraph 147I, may enable the entity referred to in paragraph 148A to meet the disclosure objective in paragraph 147G:

(a) a statement that the plan is a defined benefit plan.

(b) information about any deficit or surplus in the plan that may affect the amount of future contributions to be paid by the entity.

(c) a description of the agreed allocation of a deficit or surplus on the wind-up of the plan or on the entity's withdrawal from the plan.

(d) a description of the level of participation of the entity in the plan compared to other participating entities.

(e) a description of the stated policy to determine the contribution to be paid by the entity into the plan.

(f) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the plan.

148C An entity that accounts for its participation in a multi-employer defined benefit plan as a defined benefit plan shall comply with the overall disclosure objective for defined benefit plans in paragraphs 147A–147C and the specific disclosure objectives for defined benefit plans in paragraphs 147D, 147G, 147J, 147N, 147Q and 147T.

148D While not mandatory, the following information, in addition to that in paragraph 147I, may enable the entity referred to in paragraph 148C to meet the disclosure objective in paragraph 147G:

(a) a description of the agreed allocation of a deficit or surplus on the wind-up of the plan or on the entity's withdrawal from the plan.

(b) a description of the level of participation of the entity in the plan compared to other participating entities.

(c) a description of the stated policy to determine the contribution to be paid by the entity into the plan.

(d) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the plan.

Defined benefit plans that share risks between entities under common control

149 [Deleted]

149A An entity that participates in a defined benefit plan that shares risks between entities under common control and accounts for the contribution payable for the period in accordance with paragraph 41 shall comply with the overall disclosure objective for defined contribution plans in paragraph 54A and the specific disclosure objective on the nature of, and risks associated with, defined benefit plans in paragraph 147G.

149B While not mandatory, the following information, in addition to that in paragraph 147I, may enable the entity referred to in paragraph 149A to meet the disclosure objective in paragraph 147G:

(a) information about any deficit or surplus in the plan that may affect the amount of future contributions to be paid by the entity.

(b) a description of the level of participation of the entity in the plan compared to other participating entities.

(c) a description of the stated policy to determine the contribution to be paid by the entity into the plan.

(d) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the plan.

149C An entity that participates in a defined benefit plan that shares risks between entities under common control and accounts for an allocation of the net defined benefit cost in accordance with paragraph 41 shall comply with the overall disclosure objective for defined benefit plans in paragraphs 147A–147C and the specific disclosure objectives for defined benefit plans in paragraphs 147D, 147G, 147J, 147N, 147Q and 147T.

149D While not mandatory, the following information, in addition to that in paragraph 147I, may enable the entity referred to in paragraph 149C to meet the disclosure objective in paragraph 147G:

(a) the contractual agreement or stated policy for charging the net defined benefit cost to individual group entities.

(b) a description of the level of participation of the entity in the plan compared to other participating entities.

(c) a description of the stated policy to determine the contribution to be paid by the entity into the plan.

(d) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the plan.

150 The information provided to meet the required disclosure objectives in paragraphs 149A and 149C ~~required by paragraph 149(c) and (d)~~ can be disclosed by cross-reference to disclosures in another group entity's financial statements if the other group entity's financial statements are available to users of financial statements on the same terms and at the same time as the entity's financial statements.~~:~~

~~(a) that group entity's financial statements separately identify and disclose the information required about the plan; and~~

~~(b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.~~

~~Disclosure requirements in other IFRSs~~

151 [Deleted]

152 [Deleted]

Other long-term employee benefits

...

Disclosure

158 [Deleted]

Overall disclosure objective

158A **An entity shall disclose information that enables users of financial statements to understand the nature of other long-term employee benefits and the effect of those benefits on the entity's financial position, financial performance and cash flows.**

Termination benefits

...

Disclosure

171 [Deleted]

Overall disclosure objective

171A **An entity shall disclose information that enables users of financial statements to understand the nature of the termination benefits and the effect of those benefits on the entity's financial position, financial performance and cash flows.**

Transition and effective date

...

173 An entity shall apply this Standard retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except that an entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial

application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.~~:~~

~~(a)~~ ~~an entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.~~

~~(b)~~ ~~in financial statements for periods beginning before 1 January 2014, an entity need not present comparative information for the disclosures required by paragraph 145 about the sensitivity of the defined benefit obligation.~~

...

180 [Draft] *Disclosure Requirements in IFRS Standards—A Pilot Approach*, which amended IFRS 13 and IAS 19 issued in [the publication date of the final amendments], amended paragraphs 24, 33–34, 36, 42, 118, 150 and 173, deleted paragraphs 25, 53–54, 135–147, 148, 149, 151–152, 158 and 171, and added paragraphs 25A, 54A, 147A–147W, 148A–148D, 149A–149D, 158A, 171A and A2–A7. An entity shall apply those amendments from the first annual reporting period beginning on or after [effective date]. Earlier application of the amendments is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

[Draft] Amendments to Appendix A—Application guidance for IAS 19

The note in italic type immediately following the title of the Appendix is amended. The heading before paragraph A1 is added. Paragraphs A2–A7 and their related heading are added. New text is underlined.

This appendix is an integral part of IAS 19 *Employee Benefits* ~~*the IFRS*~~*. It describes the application of paragraphs 92–93 and 147J and has the same authority as the other parts of the Standard* ~~*IFRS*~~*.*

Contribution from employees or third parties (paragraphs 92–93)

A1 The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.

...

Expected future cash flows relating to defined benefit plans (paragraph 147J)

A2 When determining information to disclose about expected cash flow effects of defined benefit obligations, an entity shall consider the nature of the plans, how the plans are managed and the jurisdiction in which the plans operate. An entity may also consider the information about future cash flows that is regularly reviewed by trustees or managers of the plans.

A3 To assist users of financial statements in assessing the effect of defined benefit obligations on an entity's future cash flows and in evaluating how the obligations may affect the entity's economic resources, the disclosure objective in paragraph 147J of this Standard requires an entity to provide information about the expected effects of the defined benefit obligation recognised at the end of the reporting period on the entity's future cash flows.

A4 An entity would normally meet the disclosure objective by disclosing *only* the expected future cash flows that the entity will contribute to the plans to meet the defined benefit obligation recognised at the end of the reporting period. The information provided through this approach would directly meet the requirement in the disclosure objective. Examples of factors an entity considers in taking this approach include:

(a) whether its expected future contributions are limited only to addressing the defined benefit obligation at the end of the reporting period. This might be the case, for example, if the entity's defined benefit plans are closed to new members and to the further accrual of benefits to current members.

(b) whether the entity determines future contributions to address the defined benefit obligation at the end of the reporting period separately from other future contributions for future employee services.

A5 The items of information described in paragraphs 147L(a)–147L(b) of this Standard may enable an entity to meet the disclosure objective in the circumstances described in paragraph A4.

A6 However, for some entities, an alternative way to satisfy the disclosure objective in paragraph 147J could be to disclose the expected future cash flows for the defined benefit plans as a whole, without differentiating between expected future cash flows to meet the defined benefit obligation recognised at the end of the reporting period and other expected future cash flows. The information provided through this approach would go beyond the requirement in the disclosure objective. In assessing whether to take this approach, an entity considers whether it cannot reasonably determine future contributions to address the defined benefit obligation recognised at the end of the reporting period separately from future contributions for future employee services. This might be the case, for example, if:

(a) the entity's defined benefit plans are still open to new members or to the accrual of benefits to current members; or

(b) the specific laws or regulations governing expected future contributions are specified for the plans as a whole.

A7 The items of information described in paragraphs 147L(c)–147L(d) of this Standard may enable an entity to meet the disclosure objective in the circumstances described in paragraph A6.

[Draft] Amendments to other IFRS Standards

IAS 34 *Interim Financial Reporting*

Paragraph 16A is amended and paragraph 60 is added. New text is underlined and deleted text is struck through.

...

Content of an interim financial report

...

Other disclosures

16A **In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.**

...

(j) **for financial instruments, <u>information</u> ~~the disclosures~~ about fair value <u>to meet the requirements in the disclosure objectives in paragraphs 100–101, 103, 107, 111 and 114</u> ~~required by paragraphs 91–93(h), 94–96, 98 and 99~~ of IFRS 13 *Fair Value Measurement* and <u>the disclosures about fair value in</u> paragraphs 25, 26 and 28–30 of IFRS 7 *Financial Instruments: Disclosures*.**

...

Effective date

...

<u>60</u> <u>[Draft] *Disclosure Requirements in IFRS Standards—A Pilot Approach*, which amended IFRS 13 and IAS 19, issued in [the publication date of the final amendments], amended paragraph 16A. An entity shall apply that amendment from the first annual reporting period beginning on or after [effective date]. Earlier application of the amendment is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.</u>

IFRIC 17 *Distribution of Non-cash Assets to Owners*

Paragraph 17 is amended and paragraph 21 is added. New text is underlined and deleted text is struck through.

...

Consensus

...

Presentation and disclosures

...

17 If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

…

(c) the fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method(s) used to measure that fair value to meet the requirements in the disclosure objectives in paragraphs 103 and 107 ~~required by paragraphs 93(b), (d), (g) and (i) and 99~~ of IFRS 13.

Effective date

...

21 [Draft] *Disclosure Requirements in IFRS Standards—A Pilot Approach*, which amended IFRS 13 and IAS 19, issued in [the publication date of the final amendments], amended paragraph 17. An entity shall apply that amendment from the first annual reporting period beginning on or after [effective date]. Earlier application of the amendment is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Approval by the Board of Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* published in March 2021

The Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*, which proposes amendments to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*, was approved for publication by 10 of 13 members of the International Accounting Standards Board. Ms Lloyd, and Messrs Edelmann and Gast voted against its publication. Their alternative view is set out after the Basis for Conclusions.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
Nick Anderson	
Tadeu Cendon	
Martin Edelmann	
Françoise Flores	
Zach Gast	
Jianqiao Lu	
Bruce Mackenzie	
Thomas Scott	
Rika Suzuki	
Ann Tarca	
Mary Tokar	

[Draft] Amendments to Illustrative Examples accompanying IFRS 13

Paragraph IE1 has not been amended but is included for ease of reference.
Paragraph IE59 is amended. In Example 15: the illustrative example's title and paragraph IE60 are amended, the table illustrating assets measured at fair value is deleted and a new table illustrating assets and liabilities measured at fair value is added. In Example 16: paragraph IE61 is amended. In Example 17: paragraph IE63 is amended and paragraph IE64 is deleted. In Example 18: the illustrative example's title and paragraph IE65 are deleted. For ease of reading, the deleted text of paragraphs IE64 and IE65 is not included. In Example 19: the illustrative example's title and paragraph IE66 are amended. New text is underlined and deleted text is struck through.

These examples accompany, but are not part of, IFRS 13. They illustrate aspects of IFRS 13 but are not intended to provide interpretative guidance.

IE1 These examples portray hypothetical situations illustrating the judgements that might apply when an entity measures assets and liabilities at fair value in different valuation situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IFRS 13.

...

Fair value disclosures

IE59 Examples 15–<u>17 and </u>19 illustrate the disclosures <u>an entity may provide to meet the requirements in the disclosure objectives in </u>~~required by~~ paragraphs <u>103, 107, 111 and 114</u> ~~92, 93(a), (b) and (d)–(h)(i) and 99~~ of the IFRS.

Example 15—Assets <u>and liabilities</u> measured at fair value

IE60 <u>For an entity to meet the disclosure objective in paragraph 103 of the IFRS, paragraph 105 of the IFRS</u> ~~For assets and liabilities measured at fair value at the end of the reporting period, the IFRS~~ requires quantitative disclosures about the fair value measurements<u> of each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition by the level of the fair value hierarchy</u> ~~for each class of assets and liabilities~~. An entity might disclose the following for assets <u>and liabilities</u> to comply with<u> that requirement</u> ~~paragraph 93(a) and (b) of the IFRS~~:

(CU in millions)		Fair value measurements at the end of the reporting period using		
Description	31/12/X9	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
RECURRING FAIR VALUE MEASUREMENTS				
Assets				
Trading securities:[a]				
Real estate industry	73	50	23	
Oil and gas industry	45	45		
Other	35			35
Total trading securities	153	95	23	35
Investment properties	58			58
Total investment properties	58			58
Debt securities:				
Residential mortgage-backed securities[b]	149		124	25
Commercial mortgage-backed securities[c]	150		127	23
Collateralised debt obligations	35			35
Sovereign debt securities	33	33		
Corporate bonds	45	9	36	
Total debt securities	412	42	287	83
Derivatives:[d]				
Interest rate contracts	17		17	
Foreign exchange contracts	43		43	
Credit contracts	38			38
Commodity futures contracts	21	21		
Commodity forward contracts	20		20	
Total derivatives	139	21	80	38
Liabilities				
Trading securities:[a]				
Real estate industry	(60)	(42)	(18)	
Oil and gas industry	(24)	(24)		
Total trading securities	(84)	(66)	(18)	

continued...

...continued

(CU in millions)		Fair value measurements at the end of the reporting period using		
Description	31/12/X9	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Contingent consideration payable[(e)]	(80)			(80)
Total contingent consideration payable	(80)			(80)
Derivatives:				
Interest rate contracts	(60)		(60)	
Foreign exchange contracts	(15)		(15)	
Index-linked swaps	(35)		(35)	
Commodity forward contracts	(29)		(29)	
Total derivatives	(139)		(139)	
NON-RECURRING FAIR VALUE MEASUREMENTS				
Assets held for sale[(f)]	26		26	
Total non-recurring fair value measurements	26		26	

(a) The entity has analysed the nature, risks and other characteristics of the trading securities, and has determined that presenting the trading equity securities by industry provides users of financial statements with relevant information about the effect of the securities on the entity.

(b) The fair value of residential mortgage securities is based on quoted market prices, where available, purchase commitments and bid information from market participants. The prices are adjusted as necessary to include the embedded servicing value in the securities and to take into consideration the specific characteristics of such securities. These adjustments represent unobservable inputs to the valuation but are not considered significant, given the relative insensitivity of the fair value of the loans to changes in these inputs.

(c) The fair value of commercial mortgage securities is based on the benchmark interest rate swap curve, whole loan sales and agency sales transactions. The significant unobservable input for these loans, excluding those to be sold to agencies, is management's assumptions about the spread applied to the benchmark rate. Based on the significance of the unobservable input, the entity classified this portfolio as Level 3. For commercial mortgage securities to be sold to agencies with servicing retained, the fair value is adjusted for the estimated servicing cash flows, which is an unobservable input. This adjustment is not considered significant, given the relative insensitivity of the fair value of the loans to changes in this input.

(d) The majority of derivatives that the entity enters into are executed over the counter. Therefore, these derivatives are primarily classified as Level 2, as the readily observable market inputs to these models are corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market-related data.

(e) Contingent consideration payable of CU80 million relates to the acquisition in 20X7 of the ABC Enterprise business. This consideration is expected to be paid over the next five to seven years. It will vary, based on the total revenue for the relevant products and movements in foreign currencies. Measurement of the contingent consideration payable requires the use of significant unobservable inputs. Therefore, it is categorised in Level 3. Further information is provided in Note X 'Contingent consideration liabilities'.

(f) In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, assets held for sale with a carrying amount of CU35 million were written down to their fair value of CU26 million, less costs to sell of CU6 million (or CU20 million), resulting in a loss of CU15 million, which was included in profit or loss for the period.

~~(CU in millions)~~		~~Fair value measurements at the end of the reporting period using~~			
~~Description~~	~~31/12/X9~~	~~Quoted prices in active markets for identical assets (Level 1)~~	~~Significant other observable inputs (Level 2)~~	~~Significant unobservable inputs (Level 3)~~	~~Total gains (losses)~~
~~Recurring fair value measurements~~					
~~Trading equity securities:~~[(a)]					
~~Real estate industry~~	~~93~~	~~70~~	~~23~~		
~~Oil and gas industry~~	~~45~~	~~45~~			
~~Other~~	~~15~~	~~15~~			
~~Total trading equity securities~~	~~153~~	~~130~~	~~23~~		
~~Other equity securities:~~[(a)]					
~~Financial services industry~~	~~150~~	~~150~~			
~~Healthcare industry~~	~~163~~	~~110~~		~~53~~	
~~Energy industry~~	~~32~~			~~32~~	
~~Private equity fund investments~~[(b)]	~~25~~			~~25~~	
~~Other~~	~~15~~	~~15~~			
~~Total other equity securities~~	~~385~~	~~275~~		~~110~~	
~~Debt securities:~~					
~~Residential mortgage-backed securities~~	~~149~~		~~24~~	~~125~~	
~~Commercial mortgage-backed securities~~	~~50~~			~~50~~	
~~Collateralised debt obligations~~	~~35~~			~~35~~	
~~Risk-free government securities~~	~~85~~	~~85~~			
~~Corporate bonds~~	~~93~~	~~9~~	~~84~~		
~~Total debt securities~~	~~412~~	~~94~~	~~108~~	~~210~~	

continued...

...continued

~~(CU in millions)~~		~~Fair value measurements at the end of the reporting period using~~			
~~Description~~	~~31/12/X9~~	~~Quoted prices in active markets for identical assets (Level 1)~~	~~Significant other observable inputs (Level 2)~~	~~Significant unobservable inputs (Level 3)~~	~~Total gains (losses)~~
~~Hedge fund investments:~~					
~~Equity long/short~~	~~55~~		~~55~~		
~~Global opportunities~~	~~35~~		~~35~~		
~~High-yield debt securities~~	~~90~~			~~90~~	
~~Total hedge fund investments~~	~~180~~		~~90~~	~~90~~	
~~Derivatives:~~					
~~Interest rate contracts~~	~~57~~		~~57~~		
~~Foreign exchange contracts~~	~~43~~		~~43~~		
~~Credit contracts~~	~~38~~			~~38~~	
~~Commodity futures contracts~~	~~78~~	~~78~~			
~~Commodity forward contracts~~	~~20~~		~~20~~		
~~Total derivatives~~	~~236~~	~~78~~	~~120~~	~~38~~	
~~Investment properties:~~					
~~Commercial—Asia~~	~~31~~			~~31~~	
~~Commercial—Europe~~	~~27~~			~~27~~	
~~Total investment properties~~	~~58~~			~~58~~	
~~Total recurring fair value measurements~~	~~1,424~~	~~577~~	~~341~~	~~506~~	

continued...

...continued

~~(CU in millions)~~		~~Fair value measurements at the end of the reporting period using~~			
~~Description~~	~~31/12/X9~~	~~Quoted prices in active markets for identical assets (Level 1)~~	~~Significant other observable inputs (Level 2)~~	~~Significant unobservable inputs (Level 3)~~	~~Total gains (losses)~~
~~Non-recurring fair value measurements~~					
~~Assets held for sale[(c)]~~	~~26~~		~~26~~		~~15~~
~~Total non-recurring fair value measurements~~	~~26~~		~~26~~		~~15~~

~~(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)~~

~~(a)~~ ~~On the basis of its analysis of the nature, characteristics and risks of the securities, the entity has determined that presenting them by industry is appropriate.~~

~~(b)~~ ~~On the basis of its analysis of the nature, characteristics and risks of the investments, the entity has determined that presenting them as a single class is appropriate.~~

~~(c)~~ ~~In accordance with IFRS 5, assets held for sale with a carrying amount of CU35 million were written down to their fair value of CU26 million, less costs to sell of CU6 million (or CU20 million), resulting in a loss of CU15 million, which was included in profit or loss for the period.~~

Example 16—Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy

IE61 For an entity to meet the disclosure objective in paragraph 114 of the IFRS, paragraph 116 of the IFRS ~~For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the IFRS~~ requires a reconciliation from the opening balances to the closing balances of the significant reasons for changes in the fair value measurements for recurring measurements categorised in Level 3 of the fair value hierarchy ~~for each class of assets and liabilities~~. An entity might disclose the following for assets to comply with that requirement ~~paragraph 93(e) and (f) of the IFRS~~:

...

Example 17—Valuation techniques and inputs

IE63 To meet the disclosure objective in paragraph 107 of the IFRS, an entity that has assessed the significant valuation techniques and inputs used in its ~~For fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, the IFRS requires an entity to disclose a description of the valuation technique(s) and the inputs used in the fair value measurement. For~~ fair value measurements as those categorised within Level 3 of the fair value hierarchy~~, information about the significant unobservable inputs used must be quantitative. An entity~~ might disclose the following for assets ~~to comply with the requirement to disclose the significant unobservable inputs used in the fair value measurement in accordance with paragraph 93(d) of the IFRS~~:

...

IE64 [Deleted]

~~Example 18—Valuation processes~~

IE65 [Deleted]

Example 19—Reasonably possible alternative fair value measurements~~Information about sensitivity to changes in significant unobservable inputs~~

IE66 To meet the disclosure objective in paragraph 111 of this IFRS, an ~~For recurring fair value measurements categorised within Level 3 of the fair value hierarchy , the IFRS requires an entity to provide a narrative description of the sensitivity of the fair value measurement to changes in significant unobservable inputs and a description of any interrelationships between those unobservable inputs. An~~ entity might disclose the following about its residential mortgage-backed securities classified within Level 3 of the fair value hierarchy ~~to comply with paragraph 93(h)(i) of the IFRS~~:

> The significant unobservable inputs used in the fair value measurement of the entity's residential mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. The estimated fair value would increase if the probability of default and loss severity were higher or the prepayment rate were lower. As at 31 December 20X9, the alternative fair values were determined by assuming a change (increase and decrease) of 10% for the probability of default and loss severity and a change of 4% for the prepayment rate. On the basis of applying these alternative assumptions simultaneously, using the same valuation models, there would be an increase in fair values by up to CU5.6 million or a decrease in fair values by up to CU6.9 million. ~~Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.~~

[Draft] Illustrative Examples accompanying IAS 19

Paragraphs IE1–IE3, their related headings and illustrative disclosures are added. For ease of reading, these paragraphs have not been underlined.

These examples accompany, but are not part of, IAS 19. They illustrate aspects of IAS 19 but are not intended to provide interpretative guidance.

IE1 These examples portray hypothetical situations illustrating how an entity might apply some of the requirements in IAS 19 to employee benefit arrangements. The analysis in each example is not intended to represent the only way those requirements could be applied. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IAS 19.

Amounts in the primary financial statements relating to defined benefit plans

IE2 For an entity to meet the requirement in the disclosure objective in paragraph 147D of the Standard, paragraph 147F of the Standard requires disclosure of the amounts included in the statements of financial position, profit or loss and other comprehensive income, cash flows, as well as any deferred tax asset or liability, relating to defined benefit plans. Example 1 illustrates how an entity could comply with that requirement:

Example 1—Amounts in the primary financial statements relating to defined benefit plans

Facts

At 31 March 20X3, the Group operated a number of plans for the benefit of its employees throughout the world. The Group operates defined benefit plans in the United States, United Kingdom, Germany, Greece and Zimbabwe. The defined benefit plans with the largest membership are in the United States and the United Kingdom.

Example disclosure

Group statement of financial performance

The cost of all defined benefit arrangements recognised in the group statement of financial performance is shown below:

		CU[(a)]
	20X3	**20X2**
Current service cost	33	45
Past service cost	7	6
Net interest charge	39	26
Recognised in the statement of profit or loss	**79**	**77**
Actuarial loss (gain) arising from changes in financial assumptions	64	(50)
Actuarial loss arising from changes in demographic assumptions	10	–
Return on plan assets excluding amounts in the net interest charge	6	10
Recognised in the statement presenting comprehensive income	**80**	**(40)**
Total recognised in the statement of financial performance	**159**	**37**

(a) In these illustrative examples, currency amounts are denominated in 'currency units' (CU).

Group statement of financial position

The net defined benefit obligation in respect of defined benefit plans recognised in the group statement of financial position is analysed as follows:

				CU
		20X3		
	UK plan	US plan	Other plans	**Total**
Fair value of plan assets	3,479	1,088	46	**4,613**
Present value of defined benefit obligation	(3,923)	(1,329)	(24)	**(5,276)**
Surplus (deficit)	**(444)**	**(241)**	**22**	**(663)**

continued...

...continued

				CU
		20X2		
	UK plan	US plan	Other plans	**Total**
Fair value of plan assets	3,326	1,017	20	**4,363**
Present value of defined benefit obligation	(3,750)	(1,226)	(40)	**(5,016)**
Surplus (deficit)	**(424)**	**(209)**	**(20)**	**(653)**

The Group held a deferred tax asset relating to its defined benefit obligations of CU112 million in 20X3 and CU109 million in 20X2. More information about the Group's deferred tax balances can be found in Note Y.

Group statement of cash flows

Included in the group statement of cash flows are CU125 million of regular contributions and CU208 million of contributions to reduce the deficit as at 20X3.

Expected future cash flows relating to defined benefit plans

IE3 Examples 2–4 illustrate the information an entity may disclose to comply with the requirement in the disclosure objective in paragraph 147J of the Standard.

Example 2—Expected future contributions to meet the defined benefit obligation at the end of the reporting period based on management expectations

Facts

The Group operates a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 20X1 and closed to future accrual for current employees on 30 September 20X2. At 31 December 20X3, the net defined benefit liability was CU663 million, demonstrating that the fair value of the plan assets is insufficient to meet the expected future benefit payments.

Example disclosure

The Group has no specific arrangements with the plan trustees on how to address the deficit as at the end of the current reporting period. However, the Group expects to reduce that deficit by making additional total contributions of approximately CU120 million each year over the next six annual reporting periods. This estimate reflects only the expected future contributions to meet the deficit at the end of the current reporting period. This estimate of future contributions, which will only be made to the extent the deficit remains at the end of each reporting period, has been developed upon the advice of professional advisers and in-house experts.

Example 3—Expected future contributions to meet the defined benefit obligation at the end of the reporting period based on agreements with plan trustees or managers

Facts

The Group operates a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 20X1 and closed to future accrual for current employees on 30 September 20X2. At 31 December 20X3, the net defined benefit liability was CU663 million, demonstrating that the fair value of the plan assets is insufficient to meet the expected future benefit payments.

Example disclosure

The Group has specific arrangements with the plan trustees to address the deficit as at the end of the current reporting period. The Group expects to reduce that deficit over six years:

						CU
	20X4	**20X5**	**20X6**	**20X7**	**20X8**	**20X9**
Expected contributions to reduce the deficit	103	133	133	133	133	85

The expected contributions to reduce the deficit have been calculated using actuarial assumptions agreed with plan trustees based on an assessment performed on 31 March 20X3. This estimate reflects only the expected future contributions to meet the deficit that exists at the end of the current reporting period. Those expected future contributions will only be required to be paid to the extent that the deficit remains at the end of each reporting period. The plan trustees will perform the next funding assessment no later than 30 June 20X7.

Example 4—Pattern of expected future contributions based on regulatory requirements

Facts

The Group operates a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 20X1 but continue to accrue future benefits for current employees. At 31 December 20X3, the net defined benefit liability was CU663 million, demonstrating that the fair value of the plan assets is insufficient to meet the expected future benefit payments.

Example disclosure

The Group's policy is to contribute annually at least the amounts required by applicable laws and regulations. In 20X3, the Group contributed CU125 million, most of which were mandatory regulatory contributions to its defined benefit plans. Based on current assumptions, including the number of employees eligible for benefits, over the next three annual reporting periods, the Group expects no significant changes to the mandatory contributions rate for its plans. Therefore, the Group expects to contribute about CU125 million into the defined benefit plans for each of the next three annual reporting periods. This estimate reflects the expected future contributions into the defined benefit plans to meet the future funding obligations for the totality of the plans.

IFRS®

International Financial Reporting Standards®

IFRS Foundation®

IFRS®

IAS®

IFRIC®

SIC®

IASB®

The International Accounting Standards Board is the independent standard-setting body of the IFRS Foundation

Columbus Building | 7 Westferry Circus | Canary Wharf
London E14 4HD | United Kingdom
Telephone: +44 (0)20 7246 6410
Email: info@ifrs.org | Web: www.ifrs.org

Publications Department
Telephone: +44 (0)20 7332 2730
Email: publications@ifrs.org

MIX
Board from responsible sources
FSC® C020438
www.fsc.org

SET ISBN 978-1-914113-15-4
9 781914 113154
PART A ISBN 978-1-914113-16-1

IAS®

March 2021

IFRS® Standards Exposure Draft ED/2021/3
Basis for Conclusions

Disclosure Requirements in IFRS Standards—A Pilot Approach

Proposed amendments to IFRS 13 and IAS 19

Comments to be received by 21 October 2021

IASB®

IFRS®

Basis for Conclusions on

Exposure Draft

Disclosure Requirements in IFRS Standards—A Pilot Approach

Proposed amendments to IFRS 13 and IAS 19

Comments to be received by 21 October 2021

This Basis for Conclusions accompanies the Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* (published March 2021; see separate booklet). Comments need to be received by **21 October 2021** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

ISBN for this part: 978-1-914113-17-8

ISBN for complete publication (two parts): 978-1-914113-15-4

Copies of Board publications may be ordered from the Foundation by emailing customerservices@ifrs.org or visiting our shop at https://shop.ifrs.org.

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office in the Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD.

CONTENTS

continued...

...continued

Basis for Conclusions on Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*

This Basis for Conclusions accompanies, but is not part of, the proposed Guidance for the International Accounting Standards Board (Board) to use when developing and drafting disclosure requirements in IFRS Standards and the proposed amendments to IFRS 13 Fair Value Measurement *and IAS 19* Employee Benefits. *It summarises the considerations of the Board in developing the proposed Guidance and amendments. Individual Board members gave greater weight to some factors than to others.*

The history of the project and the need for change

The disclosure problem

BC1 The Board has heard three main concerns about information disclosed in general purpose financial statements prepared in accordance with IFRS Standards. These concerns are collectively referred to as the 'disclosure problem':

Table 1 The disclosure problem

1. Not enough relevant information	Information is relevant if it is capable of making a difference in the decisions made by the primary users of financial statements. If financial statements provide insufficient relevant information, their users might make inappropriate investing or lending decisions.
2. Too much irrelevant information	Irrelevant information is undesirable because it: • clutters the financial statements so that relevant information might be overlooked or hard to find, making financial statements difficult to understand; and • can add unnecessary ongoing cost to the preparation of financial statements.
3. Ineffective communication of the information provided	Information communicated ineffectively makes the financial statements hard to understand and time-consuming to analyse. Users of the financial statements may overlook relevant information or fail to identify relationships between pieces of information in different parts of the financial statements.

Background to the Disclosure Initiative

BC2 In response to stakeholder concerns about the quality of disclosures, the Board launched its Disclosure Initiative, a portfolio of projects aimed at improving the effectiveness of disclosures in financial statements.

BC3 The Board has already completed six Disclosure Initiative projects that address aspects of the disclosure problem. These projects are summarised in Tables 2 and 3.

Table 2 Disclosure Initiative—Completed amendments to IFRS Standards

Project	Objective	What did the amendments do?
Disclosure Initiative—Amendments to IAS 1	Remove barriers to the application of judgement in preparing financial statements.	The amendments addressed some concerns about presentation and disclosure requirements. For example, the amendments clarified that: • materiality applies to the whole of the financial statements and the inclusion of immaterial information can reduce the usefulness of financial disclosures; and • an entity should use professional judgement to determine where and in what order information is presented in the notes. The amendments were issued in December 2014 and became effective for annual reporting periods beginning on or after 1 January 2016.
Disclosure Initiative—Amendments to IAS 7	Improve disclosures in financial statements about an entity's financing activities.	The amendments required an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendments were issued in January 2016 and became effective for annual reporting periods beginning on or after 1 January 2017.

continued...

...continued

Project	Objective	What did the amendments do?
Disclosure Initiative—Definition of Material **Amendments to IAS 1 and IAS 8**	Help entities make better materiality judgements when preparing their financial statements.	The amendments: • clarified the definition of material and how it should be applied; • improved the explanations accompanying the definition of material; and • ensured that the definition of material is consistent across all IFRS Standards. The amendments were issued in October 2018 and became effective for annual reporting periods beginning on or after 1 January 2020.
Disclosure Initiative—Accounting Policies **Amendments to IAS 1 and IFRS Practice Statement 2**	Help stakeholders improve accounting policy disclosures for users of financial statements.	The amendments: • required entities to disclose their material accounting policy information rather than their significant accounting policies; and • added guidance and examples to IFRS Practice Statement 2 *Making Materiality Judgements* (materiality practice statement) on the application of materiality to accounting policy disclosures. The amendments were issued in February 2021 and will become effective for annual reporting periods beginning on or after 1 January 2023.

Table 3 Disclosure Initiative—Other projects

Project	Objective	Guidance issued by the Board
Materiality Practice Statement	Provide entities with guidance on making materiality judgements when preparing their financial statements.	The materiality practice statement provides: • an overview of the general characteristics of materiality; • a four-step process an entity may follow in making materiality judgements; and • guidance and examples on how to make materiality judgements in specific circumstances. IFRS Practice Statement 2 was issued in September 2017.
Better Communication in Financial Reporting—Making disclosures more meaningful Case Studies	Inspire entities to improve communication in their financial statements applying IFRS Standards.	The Case Studies document how six entities improved the way they communicate information in their financial statements applying IFRS Standards. The entities' experiences demonstrate that relatively small changes can significantly enhance the usefulness of financial statements. The Case Studies were issued in October 2017.

BC4 From March 2014 to March 2019, the Board carried out the *Disclosure Initiative—Principles of Disclosure* research project. The objective of the project was to identify and better understand disclosure issues and consider how the Board could help address the disclosure problem. In March 2017 the Board issued a Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper), which:

(a) considered various activities the Board could undertake to help address the disclosure problem; and

(b) asked stakeholders to share their views on:

  (i) the causes of the disclosure problem; and

  (ii) possible ways to address the disclosure problem.

The need for change

BC5 Many respondents to the Discussion Paper agreed with the Board that the disclosure problem is multi-faceted and that addressing it will require the input of all stakeholders. Respondents identified a variety of stakeholder behaviours that contribute to the disclosure problem. Many highlighted the 'checklist' approach as a significant factor, explaining that preparers of financial statements, auditors and regulators focus their efforts on complying with the specific disclosure requirements in individual IFRS Standards and often do not spend time applying the overarching concept of materiality to disclosures.[1] Respondents explained that:

(a) entities often approach disclosures as a compliance exercise, rather than as a means of effective communication with users of financial statements. Specifically, entities often apply the disclosure requirements in IFRS Standards as a checklist. Entities often disclose information—including boilerplate compliance statements—in response to each prescriptive disclosure requirement, whether or not the information is material. Furthermore, entities will often fail to consider whether disclosure of any information beyond that prescribed in IFRS Standards is necessary.

(b) auditors and regulators often adopt a similar checklist approach when assessing an entity's compliance with disclosure requirements in IFRS Standards. These stakeholders assess whether an entity has disclosed information in response to each prescriptive disclosure requirement in IFRS Standards and challenge entities if they find any omissions. Auditors and regulators may perceive it to be more difficult to challenge entities about omitted information if that information is not prescribed in IFRS Standards (paragraph BC6(a)).

BC6 Stakeholders said the Board's approach to developing and drafting disclosure requirements in IFRS Standards contributes to the disclosure problem—and the checklist approach—in five main ways:

(a) *Use of prescriptive language such as 'shall disclose' or 'as a minimum'*—stakeholders perceive that prescriptive language, together with the compliance approach that auditors and regulators apply, overrides materiality. Entities find providing disclosure in response to each prescriptive requirement less costly than justifying why a particular disclosure requirement is not material. Furthermore, there is a higher litigation risk for entities omitting information that is the subject of a prescriptive disclosure requirement than for those failing to disclose additional material information beyond that specifically required by IFRS Standards. There is no litigation risk associated with the disclosure of immaterial information. Consequently, prescriptive language incentivises entities to include immaterial information in the financial statements while discouraging them from applying judgement.

1 Paragraph 31 of IAS 1 *Presentation of Financial Statements* requires that 'An entity need 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. An entity 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.'

(b) *Volume of prescriptive disclosure requirements*—stakeholders think IFRS Standards contain a high volume of prescriptive disclosure requirements. The time needed to comply with prescriptive requirements limits the time available to apply judgement.

(c) *Lack of specific disclosure objectives*—stakeholders say that a lack of clear, specific disclosure objectives prevents entities and other stakeholders from understanding how users of financial statements will use the disclosed information and from applying materiality judgements effectively. Stakeholders said this is a problem in both older IFRS Standards—which contain few, if any, disclosure objectives—and more recently issued Standards which contain disclosure objectives that stakeholders say are not sufficiently specific.

(d) *Interaction of disclosure objectives and prescriptive requirements*—some stakeholders think that disclosure objectives are automatically satisfied if an entity provides information in response to each prescriptive disclosure requirement in an IFRS Standard. It is not always clear to stakeholders that they need to consider whether disclosure objectives have been satisfied. Consequently, compliance with prescriptive disclosure requirements in an IFRS Standard can give false assurance that the information provided is complete.

(e) *Inconsistent drafting of disclosure requirements*—stakeholders provided examples of inconsistent drafting, such as differences in the mix of disclosure objectives and prescriptive requirements between Standards.

BC7 Almost all respondents to the Discussion Paper suggested the Board could help solve the disclosure problem by improving its approach to developing and drafting disclosure objectives and requirements in IFRS Standards. All preparers of financial statements, regulators, standard-setters and accounting firms that responded to the Discussion Paper shared this view. Users of financial statements provided few comments about drafting, although some users expressed a preference for clear disclosure objectives.

BC8 Many respondents to the Discussion Paper said that a comprehensive review of disclosure requirements would be the most effective way for the Board to respond to feedback about how IFRS Standards contribute to the disclosure problem. However, the Board decided not to undertake a comprehensive review of disclosure requirements in all IFRS Standards because such a review:

(a) would take a substantial amount of time to complete and would be unlikely to provide improvements within the short or medium term.

(b) would limit the Board's ability to test and improve its proposed approach before considering whether and how to apply that approach across IFRS Standards.

(c) could lead to changes in recently issued Standards. In the Board's view, such changes would be unlikely to deliver benefits that exceed costs.

BC9 Nonetheless, the Board agreed with stakeholders who said it was important for the Board to take steps to address its role in the disclosure problem. The Board observed that appropriate application of materiality judgements is fundamental to solving the disclosure problem. The Board has already completed various projects intended to help stakeholders make better materiality judgements (see Tables 2 and 3 in paragraph BC3). For example, the Board's 2014 amendments to IAS 1 made clear that the concept of materiality applies to all disclosure requirements across IFRS Standards, and the 2017 materiality practice statement provided entities with guidance on making materiality judgements. Nonetheless, stakeholders continue to face challenges when making materiality judgements about disclosures. Similarly, the Board's 2017 Better Communication Case Studies demonstrated how entities could improve the usefulness of their disclosures using current requirements in IFRS Standards; however, ineffective communication continues to contribute to the disclosure problem.

BC10 After reviewing the evidence gathered, the Board decided that the most effective way it can help to address the disclosure problem is to improve the way the Board develops disclosure requirements in IFRS Standards. However, the Board observed that amendments to the disclosure requirements in IFRS Standards could not alone address the disclosure problem and that the Board would need to work with other stakeholders to assess whether any proposed amendments to IFRS Standards would be effective in helping them to address the problems described in paragraphs BC5–BC6. Consequently, the Board decided to undertake a project to improve the way it develops disclosure requirements and test whether those improvements would be effective in helping other stakeholders to play their part in addressing the disclosure problem. Such improvements would aim to address the problems identified in paragraph BC6—for example, developing specific disclosure objectives that provide entities with a basis for making better materiality judgements and that require entities to apply judgement to achieve compliance. The Board would look to develop disclosure requirements that could only be met by applying judgement and could not, therefore, be applied like a checklist.

BC11 The Board is aware that some stakeholders would like the Board to reduce the volume of disclosures required by IFRS Standards. However, in the Board's view, addressing the disclosure problem is more complex. For example, the Board removing, adding or changing disclosure requirements in IFRS Standards would in itself be insufficient to address the disclosure problem. Any improvements the Board makes to the disclosure requirements in IFRS Standards will only achieve their full benefits if preparers of financial statements, auditors and regulators use appropriate judgement when applying those requirements. This is reflected in the Board's project objectives, which are summarised in Table 4.

Table 4 Project objectives

What are the objectives of the project?
• Improve the Board's approach to developing and drafting disclosure requirements in IFRS Standards. • Help stakeholders improve the usefulness of disclosures in the notes for the primary users of their financial statements.
How can entities provide more useful information in the notes?
How to make the notes more useful will vary according to an entity's circumstances, its current practices and the judgement it applies. The Board's research demonstrates that improved judgement in the application of materiality to disclosures would make the notes more useful. Improved judgement would result in some entities disclosing additional relevant information and other entities removing information that is immaterial or summarising information more concisely. For many entities, a combination of both is needed.
Will the volume of disclosures in financial statements decrease as a result of this project?
A change in the volume of an entity's disclosures may be a consequence of this project. However, changes in volume are not the objective of the project.
Will the disclosures required by IFRS Standards decrease as a result of this project?
The project is not aimed at either increasing or decreasing the disclosures required by IFRS Standards. Any such changes would be incidental.

Helping to address the disclosure problem—the Board's approach

BC12 The Board agrees with many stakeholders who say there is no quick fix to the disclosure problem. Addressing the disclosure problem will be an iterative process involving all stakeholders and the Board itself. Changing disclosure requirements in IFRS Standards will not in itself solve the disclosure problem. However, in the Board's view, taking steps to improve the disclosure requirements in IFRS Standards will leave the Board better placed to encourage other stakeholders to help address the disclosure problem—for example, by encouraging behavioural changes around the exercise of judgement in the application of materiality.

BC13 The Board decided to take the following approach to the project:

(a) Develop Guidance for the Board to use when developing and drafting disclosure requirements in IFRS Standards in future (proposed Guidance). The objective of the proposed Guidance is to help the Board develop and draft disclosure requirements in a way that will help preparers of financial statements, auditors and regulators improve the effectiveness of disclosures provided to the users of financial statements, in particular, by providing a better basis for entities to make materiality judgements when applying disclosure requirements.

(b) Select two Standards (test Standards) on which to apply the proposed Guidance. The Board aimed to select test Standards that contained many of the issues that stakeholders say contribute to the disclosure problem, including a lack of specific disclosure objectives (see paragraph BC6).

(c) Test the proposed Guidance by applying it to the test Standards. This step has two objectives: to improve the usefulness of disclosures in financial statements prepared applying the test Standards, and to test and improve the proposed Guidance.

(d) Prepare an Exposure Draft of amendments to the test Standards, incorporating the proposed Guidance. This is intended to give stakeholders the opportunity to comment on the proposed Guidance, and the practical outcomes of applying the proposed Guidance to the test Standards.

Why did the Board select IFRS 13 and IAS 19 as test cases?

BC14 When selecting Standards to use as test cases, the Board considered the objectives of the project. The Board sought to select Standards that:

(a) contained many or all of the issues that contribute to the disclosure problem (see paragraph BC6).

(b) would benefit from a review of their disclosure requirements. The Board looked for evidence that disclosures provided by entities applying the requirements of any test Standards could more effectively meet the needs of users of financial statements.

BC15 The Board considered:

(a) disclosure issues identified during the Principles of Disclosure research project. In particular, the Board considered feedback from:

  (i) comment letter responses to a question in the Discussion Paper asking stakeholders to provide examples of disclosure requirements in IFRS Standards that could be improved;

  (ii) users of financial statements through user outreach relating to the Discussion Paper; and

  (iii) meetings with the Board's consultative groups, including the Accounting Standards Advisory Forum and the Global Preparers Forum.

(b) feedback and recommendations from:

  (i) a joint meeting of the Global Preparers Forum and the Capital Markets Advisory Committee; and

  (ii) a meeting of the Accounting Standards Advisory Forum.

(c) feedback and findings from post-implementation reviews.

(d) disclosure issues identified through previous Board or IFRS Interpretations Committee projects.

(e) external research, including reviews of common practice relating to disclosures provided on particular topics in financial statements.

BC16 The Board's research demonstrated that the disclosure problem arises in relation to information about fair value measurements and employee benefits. It also demonstrated that requirements in IFRS 13 and IAS 19 contain all the issues stakeholders say contribute to the disclosure problem. Therefore, the Board concluded that a review of the disclosure requirements of these two Standards would enable the Board to test all aspects of the proposed Guidance.

BC17 The Board also observed that selecting IFRS 13 and IAS 19 would help it to test the proposed Guidance in different ways. This expectation was reinforced by initial outreach with stakeholders, which demonstrated that the main benefits of applying the proposed Guidance to these two Standards are likely to be different. The Board expects that:

(a) applying the proposed Guidance to IFRS 13 disclosures could primarily help the Board to develop disclosure requirements that help entities make more effective materiality judgements (see paragraphs BC59–BC60); and

(b) applying the proposed Guidance to IAS 19 disclosures could primarily help the Board to develop disclosure requirements that help entities disclose information that is more relevant (see paragraphs BC105–BC106).

Basis for Conclusions on proposed Guidance for the Board to use when developing and drafting disclosure requirements in IFRS Standards

BC18 The Board proposes a new approach to developing and drafting disclosure requirements in IFRS Standards (see paragraphs DG1–DG13 of the proposed Guidance). When developing the approach, the Board considered:

(a) how to draft disclosure requirements in IFRS Standards in a way that will enhance the use of judgement (paragraphs BC19–BC26);

(b) whether and how the Board can develop specific disclosure objectives (paragraphs BC27–BC49); and

(c) other drafting matters (paragraphs BC50–BC56).

Disclosure requirements that promote the use of judgement

BC19 Paragraphs DG8–DG10 of the proposed Guidance summarise how the Board proposes to use specific disclosure objectives to describe the detailed needs of users of financial statements and require entities to disclose all material information needed to meet those information needs. The Board's approach is intended to:

(a) provide entities with a sound basis for making materiality judgements. By enabling entities to understand the user needs that disclosed information satisfies, they will be better equipped to assess which information is material; and

(b) require entities to apply judgement to achieve compliance with disclosure requirements. Entities will be required to satisfy disclosure objectives and, therefore, be required to assess whether the user needs described in the specific disclosure objectives have been satisfied.

BC20 The proposed approach is intended to help entities shift the focus from applying disclosure requirements like a checklist to considering whether disclosure objectives have been satisfied. The approach does this by using prescriptive language to require entities to comply with overall and specific disclosure objectives, while typically using less prescriptive language when referring to items of information to meet the specific disclosure objectives (items of information).

BC21 The Board considered the following ways to describe the items of information using less prescriptive language:

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

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

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

BC22 In deciding which language to propose, the Board considered which formulation would be most effective in signalling to entities the need to apply judgement and shift the focus away from applying disclosure requirements like a checklist.

BC23 Some Board members support the language 'an entity shall consider disclosing…' because, in their view:

(a) applying this language, entities would need to assess compliance with disclosure requirements and make materiality judgements at the level of the specific disclosure objectives.

(b) the disclosure of items of information identified using this language would not be mandatory. Instead, the inclusion of those items of information in the Standards would help entities to apply judgement about whether specific disclosure objectives have been met.

(c) this language would help address concerns about information that would be provided to users of financial statements applying the other language options considered, and about the enforceability of those other language options.

BC24 However, the Board decided not to take this approach because:

(a) some Board members thought the language 'an entity shall consider disclosing' would not help entities to avoid applying disclosure requirements like a checklist because it would place a compliance burden on entities. That is, to comply with such proposals, an entity would need to demonstrate that it had considered each item of information regardless of whether that item was ultimately disclosed. Similar to the stakeholder feedback described in paragraphs BC5–BC6, it may be easier for entities to disclose each item of information than to justify why any item is not disclosed. Therefore, this approach is unlikely to be effective in addressing the disclosure problem.

(b) in contrast, some other Board members thought that a requirement to 'consider' disclosing information may result in material information being omitted from financial statements. These Board members were concerned about a perception that compliance could be achieved by 'considering' disclosure of material information, without actually disclosing that information.

BC25 In the Board's view, the language 'an entity will normally disclose…' would require an entity to disclose items of information unless there is a specific reason not to do so. Supporters of this approach think it would reinforce the concept of materiality by requiring an entity to disclose each item of information unless it can demonstrate that item of information to be immaterial. However, the Board decided not to take this approach for similar reasons to those described in paragraph BC24(a)—that is, the Board did not think this approach would be effective in discouraging entities from applying disclosure requirements like a checklist. Furthermore, IFRS Standards already require an entity to disclose all material information and the Board questioned whether reinforcing this requirement alone would be effective in addressing the disclosure problem.

BC26 The Board concluded that the language 'while not mandatory, the following information may enable an entity to meet the disclosure objective in paragraph [x]' would be the most effective option of those considered, in helping to address the disclosure problem. The Board observed that, provided disclosure objectives are specific enough to be operational and enforceable (see paragraph BC27), requiring entities to comply with disclosure objectives would require all material information necessary to meet the objective to be disclosed. Consequently, specifying that items of information are not mandatory should not result in material information being omitted. Instead, using this language to describe items of information would help entities to fully understand specific disclosure objectives and determine which information is material and therefore has to be disclosed. Placing the compliance requirement on disclosure objectives and not on items of information would require an entity to apply similar judgement to that required by paragraph 31 of IAS 1. In the Board's view, this approach would reinforce the materiality requirements in IAS 1 while also reducing the perceived compliance burden that stakeholders told the Board was a cause of the disclosure problem (see paragraphs BC5 and BC6(a)).

Whether and how the Board can develop specific disclosure objectives

BC27 In the Board's view, the approach in the proposed Guidance would only be successful if the Board 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. The Board expects disclosure objectives to be operational and enforceable if they accurately reflect and clearly explain the information need and make clear that an entity is required to provide information to satisfy that need. Such objectives would provide stakeholders with the tools they need to achieve, and enforce, compliance. In developing the proposed Guidance, the Board considered whether and how it would be able to develop such objectives and tested that methodology by applying it to the disclosure requirements in IFRS 13 and IAS 19.

BC28 The Board concluded that it would be able to develop sufficiently specific disclosure objectives by applying a methodology similar to that described in the following sections. The methodology provides a complete summary of how the Board would develop sufficiently specific disclosure objectives and includes steps that have formed part of the Board's previous approaches to developing disclosure requirements. Those steps have been included for completeness. The methodology is summarised as follows:

(a) understanding the issues with information that users of financial statements currently receive (paragraphs BC31–BC33);

(b) understanding the needs of stakeholders (paragraphs BC34–BC40);

(c) understanding what disclosures are required to support proposed recognition and measurement requirements (paragraphs BC41–BC43);

(d) performing a cost-benefit analysis (paragraphs BC44–BC45); and

(e) understanding and documenting the effects of disclosure proposals (paragraphs BC46–BC47).

BC29 Furthermore, the Board's IFRS Taxonomy team would work with the project team on each of the Board's projects while the Board is developing disclosure requirements in IFRS Standards (paragraphs BC48–BC49).

BC30 The methodology described in paragraphs BC31–BC47 is not intended to be fixed; it is intended to be:

(a) flexible—the Board would adjust the sequence and volume of suggested activities to meet the needs of each project. For example, the Board may do more stakeholder outreach when it develops a new Standard than when it develops a narrow-scope amendment.

(b) iterative—the Board would use the methodology as a foundation it can build on using feedback from stakeholders, the Board's experience of developing disclosure requirements across different projects and the financial reporting outcomes of stakeholders applying those disclosure requirements.

Understanding the issues with information that users of financial statements currently receive

BC31 For each project, the Board would seek to understand any issues with the information that is currently disclosed. The Board would typically do this during the research phase of a project—for example, when developing a public consultation document such as a request for information, research paper or discussion paper.

BC32 The Board would seek to understand whether such issues result from the application of recognition and measurement requirements, the application of disclosure requirements, or both. Not all Board projects focus on disclosure. However, amendments to recognition or measurement requirements affect the information that users of financial statements receive and may warrant amendments to the disclosure requirements of an IFRS Standard.

BC33 The Board would:

(a) consider how and why the project was added to the Board's work plan;

(b) review academic literature and do other research to obtain a greater understanding of the issue, including how widespread it is; and

(c) obtain stakeholder feedback—for example, by including a question about disclosure issues in a public consultation document.

Understanding the needs of stakeholders

BC34 The Board would seek to identify, understand and clearly explain stakeholders' needs. The Board would typically do this when developing a discussion paper or an exposure draft. At this stage, the Board would focus on obtaining enough feedback to develop proposals that effectively address any issues and are responsive to stakeholder needs. The Board would gather initial feedback on the information needs of primary users of financial statements, and on the potential costs and benefits of disclosing information that would meet those needs.

Primary users of financial statements

BC35 The Board would engage with users of financial statements to understand:

(a) what information they would find useful in the notes.

(b) why they are interested in that information.

(c) what analyses they would intend to do using the information.

(d) how detailed information needs to be to adequately meet their needs.

(e) how information should be prioritised. For example, the Board would ask users to distinguish between information critical to their analyses and information that is 'nice to have'.

BC36 The Board would consider developing outreach tailored to users of financial statements. The Board would ask questions designed to help it understand the items listed in paragraph BC35. The Board would consider:

(a) conducting formal outreach meetings, for example with the Board's Capital Markets Advisory Committee or other user groups.

(b) working with national standard-setters, for example to arrange user-group discussions in different jurisdictions.

(c) consulting with investors in the Board's Investors in Financial Reporting programme.

(d) consulting with buy-side and sell-side users.

(e) consulting with a geographically diverse mix of investment professionals.

(f) collecting feedback from users' comment letters. Feedback would be particularly relevant when the Board has asked a question about user information needs in the public consultation document. In those documents, the Board would consider asking questions designed to gather the information described in paragraph BC35.

BC37 The Board would seek to understand feedback from users of financial statements well enough to develop and clearly explain specific disclosure objectives in the manner described in paragraphs DG8–DG9 of the proposed Guidance. If the Board has not achieved this detailed understanding, it would conduct further work before developing specific disclosure objectives. The Board observed that this approach has the additional advantage of improving rigour in setting disclosure requirements—that is, every disclosure requirement proposed would be justified by well-understood user needs.

BC38 The Board acknowledged that the proposed approach would require more time from users of financial statements than has been the case in previous Board projects. In the Board's view, that time would be justified if detailed input from users enabled the Board to develop disclosure requirements that lead to improved information in financial statements. This view was shared by many of the users of financial statements that took part in the Board's test of the proposed approach on IFRS 13 and IAS 19 (see paragraph BC58).

Stakeholders other than users of financial statements

BC39 The Board would consult stakeholders other than users of financial statements to understand their views on the identified user needs and the disclosure proposals in a project. The Board would seek to understand:

(a) the cost consequences of disclosure requirements and disclosure proposals. The Board would consider:

(i) asking preparers of financial statements whether they consider any disclosure requirements to be unduly onerous, and why;

(ii) assessing whether any alternative disclosures could meet the same information need as a disclosure requirement or a disclosure proposal, but be less costly to prepare; and

(iii) performing fieldwork to test disclosure proposals with preparers.

(b) if entities typically disclose information that is useful to their stakeholders but not required by IFRS Standards, and why they do so.

(c) audit consequences of disclosure proposals—for example, whether compliance with any disclosure proposals would be difficult to audit, and why.

(d) regulatory consequences of disclosure proposals—for example, disclosure proposals that would be challenging to enforce, and why.

(e) the relationship between disclosure requirements or disclosure proposals and jurisdictional requirements. The Board would consider, for example:

(i) jurisdictional requirements considered useful that are not required by IFRS Standards; and

(ii) overlap or duplication between disclosure requirements in IFRS Standards and jurisdictional requirements.

BC40 To achieve the understanding described in paragraph BC39, the Board would:

(a) hold outreach meetings with preparers of financial statements, regulators, auditors, national standard-setters, accountancy bodies and others. Outreach could involve individual meetings or public round-table meetings.

(b) consult the Board’s advisory bodies and consultative groups, including the Global Preparers Forum, Accounting Standards Advisory Forum and the IFRS Advisory Council.

(c) consider feedback from comment letters. Feedback would be particularly relevant when the Board has asked a specific question about disclosure requirements in a public consultation document. In such documents, the Board would ask questions designed to gather the information described in paragraph BC39.

Understanding what disclosures are required to support proposed recognition and measurement requirements

BC41 As well as considering stakeholder needs, the Board would consider the effect of any related decisions it makes about recognition and measurement. For example, when developing recognition and measurement requirements, the Board would have in mind disclosures needed to support those requirements. The Board would focus on identifying:

(a) disclosures that provide useful information to users of financial statements that cannot be provided through the recognition, measurement and presentation requirements of a Standard;

(b) disclosures required to support the proposed recognition and measurement requirements at an early stage of a project; and

(c) additional information needs related to new recognition and measurement requirements that users of financial statements have not previously been exposed to.

BC42 As part of the considerations listed in paragraph BC41, the Board would discuss disclosure objectives and information to meet those objectives throughout the life of a project. In the Board's view, considering and discussing what disclosures are necessary as it develops proposed recognition and measurement requirements is important.

BC43 In many cases, feedback from stakeholders would facilitate Board discussions about the disclosures necessary to support recognition and measurement requirements. However, the Board would consider further discussions with its advisory bodies, consultative groups and others if it requires any clarification or additional feedback.

Performing a cost-benefit analysis

BC44 While analysing and developing any project proposals, including those relating to disclosure, it is important for the Board to consider the likely practical effects. This includes understanding the costs of disclosure proposals versus the expected benefits.

BC45 The Board formalises and documents its analysis as part of the effects analysis developed for publication (see paragraphs BC46–BC47). Applying the approach described in the proposed Guidance, the Board would consider the costs and benefits of the disclosure proposals throughout the life of the project. The Board would consider:

(a) including a question in public consultation documents requesting views on disclosure proposals and their potential costs and benefits; and

(b) cost-benefit information when determining which disclosure information is essential and should be required.

Understanding and documenting the effects of disclosure proposals

BC46 The Board draws on knowledge obtained throughout the standard-setting process when preparing an effects analysis for inclusion in the final documents for publication. The purpose of this step is to communicate to stakeholders the Board's expectations about:

(a) the benefits of the disclosure proposals, including the benefits of improved information to users of financial statements;

(b) the practical effects and costs of the disclosure proposals for entities; and

(c) any other effects, such as expected regulatory or electronic reporting consequences of the disclosure proposals.

BC47 Work performed earlier in a project would often provide most of the information necessary for the Board to document its effects analysis. However, the Board would consider performing more outreach to ensure it has a comprehensive understanding of the likely effects of the disclosure proposals.

Working with the IFRS Taxonomy team

BC48 The IFRS Taxonomy team would work with the project team on each Board project as the Board develops disclosure requirements. The level of involvement of the IFRS Taxonomy team would vary depending on the project. For example, the IFRS Taxonomy team would be able to provide more support in developing disclosure requirements for a new IFRS Standard than in the development of a narrow-scope amendment that would have a limited effect on the disclosure requirements of a Standard.

BC49 The objective of working with the IFRS Taxonomy team would be to help the Board understand the electronic reporting consequences of implementing stakeholder feedback. The Board would seek to understand:

(a) current disclosure objectives and requirements, including any issues with them—for example:

(i) common application challenges or inconsistencies; and

(ii) duplication of or contradiction between requirements in IFRS Standards.

(b) whether disclosure proposals are 'technology neutral'—that is, whether the disclosure proposals can be applied effectively in both an electronic reporting format and a paper-based format.

(c) whether and how disclosure proposals can be incorporated into the IFRS Taxonomy. For example, the IFRS Taxonomy team may help the Board to understand whether taxonomy elements could be easily created with the wording in the disclosure proposals. Considering the electronic tagging of disclosure proposals may also help to identify any lack of clarity in those proposals.

(d) the relationship between disclosure proposals and common reporting practice, IFRS Standards and accompanying materials such as implementation guidance and illustrative examples.[2] For example, the IFRS Taxonomy team would be able to help the Board understand whether common reporting practice shows useful information that is absent from the disclosure proposals.

2 The IFRS Taxonomy team undertakes common reporting practice projects to include in the IFRS Taxonomy elements for frequently disclosed information that is not specifically mentioned in IFRS Standards or their accompanying materials, but is, nonetheless, consistent with IFRS Standards.

Other drafting matters

BC50 The proposed Guidance explains how the Board would modify disclosure requirements in IFRS Standards to promote the use of judgement. While applying these proposals, the Board would also be able to consider other steps to ensure that disclosure requirements in IFRS Standards are drafted in a way that clearly communicates their intent. This section summarises these additional considerations:

(a) using consistent language in IFRS Standards (paragraph BC51);

(b) format and presentation of disclosure requirements in IFRS Standards (paragraphs BC52–BC54); and

(c) linking related requirements and guidance across IFRS Standards and other publications (paragraphs BC55–BC56).

Consistent language

BC51 Inconsistencies in language can lead to confusion about how to apply IFRS Standards. To help minimise inconsistencies in language, the Board would:

(a) consider defining terms and concepts introduced in the disclosure requirements of an IFRS Standard.

(b) work with the IFRS Foundation’s Translations, Adoption and Copyright team to consider how a proposed term or concept is defined when translated.

(c) avoid using a term or concept in different ways in disclosure requirements in IFRS Standards. When use of the same term with different meanings is unavoidable, the Board would consider drafting guidance, such as an explanatory paragraph, to explain the use of the term or concept in the context in which it is being used and would clearly link each use of the term or concept to the related explanation.

(d) make clear the intended location when using the terms ‘present’ and ‘disclose’ in the disclosure requirements of an IFRS Standard. For example, the Board could use ‘present in the primary financial statements’ and ‘disclose in the notes’.

(e) work with the IFRS Taxonomy team at the drafting stage to identify any inconsistencies between the ways in which terms and concepts are described in the disclosure proposals and other places in IFRS Standards.

Format and presentation of disclosure requirements in IFRS Standards

BC52 Applying the proposed Guidance, the Board would present overall disclosure objectives at the beginning of the disclosure section of an IFRS Standard. Overall disclosure objectives describe the overall needs of users of financial statements that entities are required to satisfy. Presenting these objectives at the beginning of disclosure sections would provide helpful context for entities when applying the specific disclosure objectives that follow, and highlight upfront any additional requirements—for example about aggregation or disaggregation—that entities are required to satisfy when they apply the specific disclosure objectives.

BC53 The preface to the IFRS Standards bound volumes says: 'Standards approved by the IASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.' Applying the proposed Guidance, overall and specific objectives would represent the main disclosure principles of an IFRS Standard. The Board would therefore present disclosure objectives in a Standard in bold type.

BC54 Applying paragraph DG11 of the proposed Guidance, the Board would link each item of information in the disclosure section of an IFRS Standard to one or more specific disclosure objectives that are based on the needs of users of financial statements. To achieve this, the Board would organise disclosure sections in IFRS Standards based on the information needs the disclosure objectives are intended to satisfy. By drafting disclosure requirements so the linkage between items of information and user needs is clear, the Board would aim to help entities understand why and how information is useful, and thus help entities to properly exercise materiality judgements and communicate information effectively. In the Board's view, this approach would make clear that entities are required to apply judgement about what information is needed to satisfy disclosure objectives and reduce the focus on applying disclosure requirements like a checklist.

Linking related requirements and guidance across IFRS Standards and other publications

BC55 The Board observed that linking information across IFRS Standards and other IFRS publications, such as IFRS Practice Statements, would:

(a) minimise duplication in IFRS Standards and other IFRS publications;

(b) promote consistent drafting of disclosure requirements in IFRS Standards; and

(c) ensure the relationship between individual disclosure objectives and requirements in IFRS Standards and the concept of materiality is consistent and clear (paragraph DG4).

BC56 To minimise inconsistencies and confusing relationships between disclosure requirements in IFRS Standards, the Board would seek to minimise duplication when applying the proposed Guidance. When similar items of disclosure information are identified in more than one Standard, the Board would cross-refer between those Standards. However, the Board would do so only when cross-referring would not adversely affect the clarity of relationships between specific disclosure objectives and items of information that may enable an entity to meet those objectives within a Standard.

Basis for Conclusions on proposed amendments to IFRS 13 *Fair Value Measurement*

Overview

BC57 The Board proposes to replace the disclosure requirements in IFRS 13 with a new set of requirements developed applying the proposed Guidance. The sections that follow explain the Board's rationale for:

(a) the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition (measured at fair value in the statement of financial position) (paragraphs BC62–BC73);

(b) specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position (paragraphs BC74–BC97);

(c) 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 (not measured at fair value but for which fair value is disclosed) (paragraphs BC98–BC100);

(d) other disclosure objectives and items of information considered but rejected by the Board (paragraphs BC101–BC103).

BC58 In developing its proposals, the Board undertook outreach with users of financial statements to help the Board understand their views about fair value measurement disclosures, including the items listed in paragraph BC35. The Board held 21 meetings with 35 users—buy-side and sell-side investors and credit rating agencies—and consulted its Capital Markets Advisory Committee. The Board also consulted its other advisory bodies and consultative groups, including the Global Preparers Forum, the Accounting Standards Advisory Forum and the IFRS Taxonomy Consultative Group. The purpose of these discussions was to understand stakeholders' views on fair value measurement disclosures and the identified user information needs (see paragraph BC39). The Board also considered findings from the Post-implementation Review of IFRS 13, which had identified some potential improvements to the disclosure requirements of the Standard.

BC59 Stakeholders that participated in the outreach informed the Board that fair value measurement disclosures applying IFRS 13 generally contain information that meets the needs of users of financial statements. However, the disclosures often contain detailed information about fair value measurements that are not material to the financial statements of the reporting entity. Such disclosures are not useful to users' analyses and are costly for entities to prepare. At the same time, users say there is sometimes limited information about the fair value measurements that are material to the entity's financial statements.

BC60 Consequently, the Board expects that the key benefit of the proposed amendments to IFRS 13 would be helping entities make more effective materiality judgements when preparing their fair value measurement disclosures.

BC61 Throughout the proposed amendments to IFRS 13, references to assets and liabilities measured at fair value also apply to an entity's own equity instruments measured at fair value, as stated in paragraph 4 of IFRS 13.

Overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition (paragraphs 100–101 of IFRS 13)

BC62 In developing its overall disclosure objective, the Board observed that the information needs identified through its outreach with users of financial statements share a common theme: understanding an entity's exposure to uncertainties associated with fair value measurements.

BC63 As described in paragraph DG6, the overall disclosure objective would explain the overall needs of users of financial statements in relation to assets and liabilities measured at fair value in the statement of financial position and require an entity to consider whether, as a whole, the information it provides by complying with the specific disclosure objectives in the Standard meets those information needs. For IFRS 13, the Board expects that an entity will need to disclose additional information if there are any material uncertainties associated with fair value measurement that have not been captured by applying the specific disclosure objectives. Consequently, the Board focused its overall disclosure objective on such uncertainties.

Level of detail (paragraph 101 of IFRS 13)

BC64 The Board proposes requiring an entity to consider the level of detail necessary to satisfy the disclosure objectives and ensure that material information about the entity's fair value measurements is not obscured by insignificant detail.

BC65 Almost all stakeholders that provided feedback to the Board on fair value measurement disclosures highlighted the importance of the proper application of materiality. Indeed, one reason the Board selected IFRS 13 for review was evidence that application of the disclosure requirements in this Standard sometimes leads entities to omit information about material fair value measurements, often while disclosing large amounts of detail about immaterial fair value measurements (see paragraph BC59).

BC66 Preparers of financial statements were concerned about the relevance of fair value disclosures to non-financial entities. In a meeting between preparers and users of financial statements, users confirmed that they want detailed fair value measurement disclosures for non-financial entities when such measurements are material. Both groups agreed that the proper application of materiality should enable entities to eliminate detailed information about immaterial fair value measurements from their financial statements, although preparers reported that making and implementing such judgements could be challenging.

BC67 Stakeholders were concerned about how entities with material fair value measurements—particularly financial entities—apply the disclosure requirements in IFRS 13 to assets and liabilities (items) categorised within Level 2 and Level 3 of the fair value hierarchy. In particular:

(a) users of financial statements said Level 3 fair value measurements are often immaterial to the financial statements and to users' analyses, yet are the subject of lengthy and detailed disclosures in those statements;

(b) preparers of financial statements said detailed Level 3 fair value measurement disclosures are onerous to prepare but users rarely ask questions about them; and

(c) users—particularly bank-sector analysts—said Level 2 fair value measurements are often material to the financial statements, yet users receive little relevant information about such measurements.

BC68 The Board noted that IFRS 13 requires detailed disclosure only for Level 3 fair value measurements. In developing IFRS 13, the Board concluded that requiring detailed disclosures would be the best way to help users of financial statements understand the subjectivity of Level 3 fair value measurements—which are developed using unobservable inputs that have a significant effect on the fair value measurements. IFRS 13 requires any fair value measurement that is significantly affected by unobservable inputs to be categorised within Level 3. Consequently, some would argue that detailed information about other fair value measurements has little relevance for users of financial statements because any subjectivity in their measurement should be limited.

BC69 However, users of financial statements said that, in their view, the levels of the fair value hierarchy are not clearly distinct, but contain a continuum of measurement uncertainty and subjectivity. Users say some fair value measurements categorised within Level 2 of the fair value hierarchy are very close to the Level 3 section of that continuum. This might be the case, for example, when a fair value measurement has some Level 2 inputs and some Level 3 inputs and an entity judges that the Level 3 inputs are not significant to the entire measurement. In such a case, the entity would categorise the fair value measurement in its entirety within Level 2 because the lowest-level inputs that are significant to the entire measurement are those in Level 2. The Board was informed that entities often apply a threshold test in this scenario—that is, if the effect of an unobservable input on overall measurement is greater than a threshold, then the item is categorised within Level 3. Conversely, if the effect is below an entity's threshold, the item is categorised within Level 2.

BC70 The Board was also informed that many financial entities have assets and liabilities with an absolute value of Level 2 fair value measurements many times greater than their Level 3 fair value measurements. Consequently, users of financial statements sometimes receive many pages of detailed information about Level 3 fair value measurements which are insignificant, and minimal information about material Level 2 fair value measurements that, in some cases, are subject to measurement uncertainty. Users told the Board they would like to understand exposure to uncertainties associated with fair value measurements categorised within Level 2. This would include understanding the nature of the assets and liabilities categorised in Level 2, the extent to which any of those assets and liabilities are affected by uncertainties inherent in their measurement and any significant changes in the fair value of those assets and liabilities whose measurement was affected by uncertainties during the reporting period.

BC71 In the light of these considerations, the Board concluded that detailed information about some Level 2 fair value measurements would be relevant to users of financial statements. The Board also concluded that detailed information about Level 3 fair value measurements is only relevant to users if those measurements are material.

BC72 Consequently, the Board considered whether the proposed specific disclosure objectives in IFRS 13 should refer to 'material fair value measurements'. However, the Board decided against this approach because materiality is a pervasive concept in IFRS Standards. In the Board's view, making specific reference to materiality in the disclosure requirements of IFRS 13 could raise questions about whether materiality applies to the disclosure requirements of Standards in which the concept is not explicitly mentioned (see paragraph DG4 of the proposed Guidance).

BC73 Instead, the Board decided to reinforce the importance of the proper application of materiality to its IFRS 13 proposals by:

(a) including in the overall disclosure objective a requirement for entities to consider the level of detail necessary to satisfy the disclosure objectives. In developing this requirement, the Board focused on the need to ensure that useful information is not obscured by insignificant detail. The Board expects entities applying this requirement to consider whether the level of detail in their fair value measurement disclosures is adequate but not excessive and whether detailed information is provided only about those fair value measurements that are material. Information about user needs in the proposed specific disclosure objectives (see paragraphs BC74–BC100) should help an entity to apply judgement and determine which information is material. Entities could also use the guidance in the materiality practice statement to help them apply the concept of materiality to their fair value measurement disclosures.

(b) avoiding reference to levels of the fair value hierarchy in the proposed specific disclosure objectives and items of information to meet those objectives, when possible and helpful. The Board took this approach with the intention of requiring entities to apply judgement and avoid applying disclosure requirements like a checklist. The Board expects this approach to help entities:

(i) eliminate insignificant detail from their IFRS 13 disclosures—for example, information about immaterial Level 3 fair value measurements.

(ii) disclose relevant information for material fair value measurements, even if it relates to fair value measurements other than those categorised within Level 3 of the fair value hierarchy. In practical terms, the Board expects entities applying this requirement to consider disclosing information about measurement uncertainty for material fair value measurements that are categorised within Level 2 but for which the categorisation is close to Level 3 (see paragraph BC69). The Board expects this approach would not necessitate the provision of detailed information for items in Level 1, or most items in Level 2, of the fair value hierarchy.

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

BC74 The paragraphs that follow explain the Board's rationale for the proposed specific disclosure objectives requiring entities to provide information about:

(a) assets and liabilities within each level of the fair value hierarchy (paragraphs BC75–BC78);

(b) measurement uncertainties associated with fair value measurements (paragraphs BC79–BC83);

(c) reasonably possible alternative fair value measurements (paragraphs BC84–BC88); and

(d) reasons for changes in fair value measurements (paragraphs BC89–BC97).

Assets and liabilities within each level of the fair value hierarchy (paragraphs 103–106 of IFRS 13)

Specific disclosure objective (paragraphs 103–104 of IFRS 13)

BC75 Users of financial statements told the Board that the nature of items measured at fair value in the statement of financial position is sometimes not clear from their one-line description in a table, and that further explanation about those items is needed. Users added that such explanations are particularly important when an entity has applied judgement in determining where the item should be categorised within the fair value hierarchy, or for complex items such as assets or liabilities arising from risk and revenue sharing arrangements. In the Board's view, for users to assess how fair value measurements affect an entity, they need to understand what is being measured. Therefore, the Board developed a specific disclosure objective to focus on the amount, nature and other characteristics of items in the fair value hierarchy. The Board also decided 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. The Board does not expect an entity to explain the categorisation of each class of assets and liabilities (see paragraph BC76). However, the Board observed that information about the characteristics of an entity's classes of assets and liabilities that affected categorisation within the fair value hierarchy is more likely to be material to the financial statements than information that did not affect categorisation. The Board concluded that it would be helpful to highlight this in the specific disclosure objective.

BC76 The Board considered whether the specific disclosure objective should also require entities to disclose information that enables a user of financial statements to understand how an entity determines in which level of the fair value hierarchy assets and liabilities belong. However, the Board decided not to include this requirement in the specific disclosure objective because:

(a) users primarily want to assess the relative subjectivity in the assessment of where the items are in the fair value hierarchy. In their view, the levels of the fair value hierarchy are not clearly distinct but form a continuum of measurement subjectivity (see paragraph BC69). Consequently, users are interested in understanding, for example, whether material items categorised within Level 2 of the fair value hierarchy are closer in terms of measurement uncertainty to Level 3 or to Level 1. Users can achieve this understanding from informative descriptions about the classes of items categorised within each level of the fair value hierarchy more effectively than through information about how an entity determined to which level an item belongs.

(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, duplicate the definitions of the levels in IFRS 13 and add to the volume of the type of disclosures that stakeholders say contributes to the disclosure problem.

Items of information to meet the objective (paragraphs 105–106 of IFRS 13)

BC77 The Board proposes 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. The Board's view is that this information would always be necessary to meet the information need captured by the specific disclosure objective. 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. Consequently, the Board used prescriptive 'shall' language for this item of information in the proposed amendments.

BC78 The proposals also include additional items of information that, while not mandatory, may also help an entity to meet the specific disclosure objective. The Board observed that, often, a direct description of the characteristics of different classes of assets and liabilities would meet the user needs described in paragraph BC75.

Measurement uncertainties associated with fair value measurements (paragraphs 107–110 of IFRS 13)

Specific disclosure objective (paragraphs 107–108 of IFRS 13)

BC79 In the Board's view, a faithful representation of fair value measurements needs to include an explanation of the uncertainties inherent in that measurement. Users of financial statements also want information that enables them to assess whether the techniques and inputs used to measure assets and liabilities at fair value in the statement of financial position are reasonable and consistent with their own expectations.

BC80 Preparers of financial statements were concerned that disclosing information about all the valuation techniques and inputs they used to derive their fair value measurements might be excessively costly to prepare and result in voluminous disclosures that do not provide useful information.

BC81 The Board does not expect an entity to disclose every technique and input used in deriving its fair value measurements. Instead, the Board expects an entity to provide information about the techniques and inputs that are significant to the entity's fair value measurements and give rise to uncertainty in those measurements. This approach is consistent with paragraph 127 of IAS 1, which states that assumptions and other sources of estimation uncertainty to be disclosed should relate to the estimates that require management's most difficult, subjective or complex judgements. The Board proposes to amend Illustrative Example 17 to eliminate any possible interpretation that an entity is required to disclose every technique and input used in deriving its fair value measurements.

Items of information to meet the objective (paragraphs 109–110 of IFRS 13)

BC82 The Board 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 fair value measurements. The Board 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. The Board expects an entity to apply judgement to determine which items of information are relevant in its circumstances. The Board observed that, in some cases, a direct description of the significant techniques and inputs used in measuring fair value would help to meet the user needs described in paragraph BC79.

BC83 Paragraph 48 of IFRS 13 permits an entity, in some circumstances, to 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. In the Board's view, if an entity makes such an accounting policy choice, and the effect of that choice is material, disclosing that fact will always be relevant to users of financial statements. Consequently, the Board decided to use prescriptive language (shall) for this item of information in the proposals.

Reasonably possible alternative fair value measurements (paragraphs 111–113 of IFRS 13)

Specific disclosure objective (paragraphs 111–112 of IFRS 13)

BC84 Users of financial statements told the Board they want to understand:

(a) the range of possible fair values at the end of the reporting period for assets and liabilities measured at fair value in the statement of financial position;

(b) where within that range the entity's measurements fall;

(c) the events or circumstances that would make fair values materially different from those reported; and

(d) potential future cash flow effects of an entity's exposure to fair value changes.

BC85 The Board considered whether to include all of the information needs in paragraph BC84 when developing the specific disclosure objective in proposed paragraph 111 of IFRS 13. However, the Board decided not to take this approach because:

(a) in the Board's view, some of the information needs described in paragraph BC84 duplicate information needs addressed elsewhere in the proposals. The Board concluded that entities would meet users' information needs about:

(i) where within the range of possible values an entity's measurements fall by complying with the specific disclosure objective in paragraph 103 of the proposed amendments. This objective requires an entity to disclose information that enables users of financial statements to understand the amount, nature and other characteristics of the classes of items within each level of the fair value hierarchy.

(ii) the events or circumstances that could make fair values materially different from those reported by complying with the specific disclosure objective in paragraph 107 of the proposed amendments. This objective requires an entity to disclose information that enables users to understand the significant techniques and inputs used in deriving its fair value measurements.

(b) feedback from stakeholders other than users about the costs involved in preparing detailed sensitivity analysis led the Board to conclude that the costs of requiring entities to prepare such information would exceed the benefits.

BC86 Users of financial statements told the Board that information about the overall possible range of fair value measurements at the end of the reporting period is more useful to their analyses than detailed sensitivity information. Consequently, the Board focused the specific disclosure objective on the range of reasonably possible fair values for items measured at fair value in the statement of financial position. In the Board's view, this approach should provide users with the information that is most useful to them, while avoiding undue costs to entities.

Items of information to meet the objective (paragraph 113 of IFRS 13)

BC87 The Board proposes to include items of information that, while not mandatory, may enable an entity to meet the specific disclosure objective about reasonably possible alternative fair value measurements. The Board expects that an entity would apply judgement to determine which items of information are relevant in its circumstances. The Board observed that the information necessary to meet the specific disclosure objective would vary depending on an entity's circumstances. For example, information about individual inputs might be relevant if the effect of reasonably possible changes in an input is individually significant. In other cases, information about movements in individual inputs might not contribute to a user's understanding of the overall possible fair value measurements at the end of the reporting period. In these cases, disclosure of the overall range of possible fair value measurements might meet the specific disclosure objective.

BC88 In developing the items of information in paragraph 113 of the proposed amendments, the Board referred directly to measurement uncertainty at the end of the reporting period and avoided direct reference to sensitivity analysis. The Board used such language because the Board:

(a) observed that the underlying needs of users of financial statements relate to understanding measurement uncertainty at the end of the reporting period. The Board does not expect entities to provide forward-looking information about expected future changes in fair value measurements.

(b) placed importance on feedback from users that they do not always use detailed sensitivity information in their analyses, and feedback from other stakeholders about the costs of preparing such information (see paragraph BC85).

Reasons for changes in fair value measurements (paragraphs 114–117 of IFRS 13)

Specific disclosure objective (paragraphs 114–115 of IFRS 13)

BC89 Users of financial statements told the Board that understanding why the amount of fair value measurements has changed during the period is useful to their analyses. Such information helps users to understand the measurements —for example, to understand whether an increase in assets categorised within Level 3 of the fair value hierarchy is because of purchases, changes in the amount at which items are measured or transfers from Level 2. Understanding how fair values have changed during the period also helps users to identify items to include in their analyses.

BC90 Stakeholders were concerned that preparing detailed information about the reasons for changes in the amount of fair value measurements could be costly. However, the Board does not expect entities to disclose information about all reasons for changes in all fair value measurements across all levels of the fair value hierarchy.

BC91 Consequently, the Board focused the specific disclosure objective on reasons for changes that are significant to fair value measurements. The Board 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. The Board also concluded that an entity could use the items of information to meet the objective to help determine which reasons for changes are significant and should be disclosed.

Items of information to meet the objective (paragraphs 116–117 of IFRS 13)

BC92 Users of financial statements had mixed views about the level of granularity of information that is necessary to meet their information needs about reasons for changes in fair value measurements. Many users said that a full reconciliation from opening to closing balances of fair value measurements is useful, whereas other users said they are primarily interested in specific reasons for changes, such as transfers between Level 2 and Level 3 of the fair value hierarchy and foreign exchange rate movements. The Board considered treating a reconciliation as one way to meet the disclosure objective, but not the only way. However, the Board decided to require a reconciliation of the significant reasons for changes in fair value measurements because:

(a) feedback on the 2011 Agenda Consultation indicated that an important user need is rollforwards of key items in the statement of financial position. Rollforwards allow users to understand how the primary financial statements fit together and make the financial statements more accessible.

(b) in the Board's view, movements in fair value measurements could not be understood without a reconciliation.

(c) the Board was concerned that, in the absence of a requirement for a reconciliation, entities might provide bland, non-quantitative descriptions of significant reasons for changes that might not meet user needs.

BC93 However, the Board did not require entities to provide a reconciliation that includes a line item for every reason for changes in the amount of fair value measurements. The Board decided that the reconciliation should highlight the significant reasons for changes in fair value measurements and aggregate other items. In the Board's view, entities will be able to make a relative assessment across the reasons for changes to determine which of those reasons are significant. Such a relative assessment differs from assessing whether an individual item is significant on a standalone basis, which stakeholders have informed the Board can be challenging.

BC94 In considering which fair value measurements should fall within the scope of the required reconciliation, the Board observed that users of financial statements want detailed information about fair value measurements that are material, and whose measurement is subject to judgement or uncertainty. The Board also concluded that it needs to clearly define the population of items for which the reconciliation is required. Otherwise, entities may have difficulty complying with the requirement, and users may have difficulty tying the reconciliation to other parts of the financial statements. The Board also observed that requiring a reconciliation from opening to closing balances of Level 3 fair value measurements means users will always be able to understand the amounts recognised in the statements of financial performance relating to Level 3 fair value re-measurements. Such an understanding is important because it helps users to understand any realised and unrealised gains and losses, and the ‘quality’ of such earnings—for example, users might view a large unrealised gain relating to a Level 3 instrument differently from that relating to a Level 1 instrument.

BC95 In the light of these considerations, the Board decided to require entities to disclose a reconciliation from the opening balances to the closing balances in recurring fair value measurements categorised within Level 3 of the fair value hierarchy. In the Board’s view, if Level 3 fair value measurements are material, information about the reasons for changes between the opening and closing balances will always be significant and entities will always need to disclose such information to meet the specific disclosure objective.

BC96 The Board noted that information about significant reasons for changes in the amounts of fair value measurements categorised outside Level 3 of the fair value hierarchy may also be necessary to meet the specific disclosure objective. Such information is likely to be necessary if it describes any material fair value measurements that are categorised within Level 2 but for which the categorisation is close to Level 3 (the ‘grey area’—see paragraph BC69). However, in the Board’s view, an entity should not be expected to provide a full reconciliation of movements in such fair value measurements because the entity would need to judge the population of fair value measurements to include in such a reconciliation. This judgement could change from reporting period to reporting period and would result in a population of fair value measurements that would be difficult to reconcile to other areas of the financial statements. Consequently, an entity that has any material fair value measurements that fall within the ‘grey area’ would need to explain how and why the amount of those measurements has changed during the reporting period to meet the specific disclosure objective about reasons for changes. In the Board’s view, such an explanation would provide useful information to users of financial statements. For example, users are likely to view reductions in the amount of fair value measurements that arise from disposals differently from reductions caused by an increase in the significance of unobservable inputs and a consequent transfer from Level 2 to Level 3. Therefore, paragraph 117(a) of the proposed amendments says that, while not mandatory, an explanation of the significant reasons for changes in recurring fair value measurements categorised outside Level 3 of the fair value hierarchy is an example of information that may enable an entity to meet the specific disclosure objective about reasons for changes.

BC97 To help an entity apply the proposals and understand what the Board had in mind when developing the specific disclosure objective, the Board proposes to include examples of reasons for changes. The Board considered feedback that some reasons for changes are particularly significant to users of financial statements, namely:

(a) transfers between levels of the fair value hierarchy. The Board agreed with feedback from users that information about transfers is important to their analyses. Transfers between levels of the fair value hierarchy demonstrate changes in the level of uncertainty in fair value measurements. Consequently, information about why transfers have occurred is relevant to users' ability to understand an entity's exposure to those uncertainties and its approach to categorising fair value measurements within each level of the fair value hierarchy.

(b) foreign exchange movements. Some users provided feedback that information about foreign exchange movements is important to their analyses. Furthermore, the common reporting practice review of fair value disclosures conducted by the IFRS Taxonomy team in 2019 showed that entities commonly choose to provide information about foreign exchange movements in fair value measurements, even though IFRS 13 does not require such information.[3] In the Board's view, entities choose to disclose such information because they believe it is useful to users. The Board therefore decided to include the effect of foreign exchange rate differences as an example of a reason for change in the amount of fair value measurements that an entity might need to disclose to meet the specific disclosure objective.

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 118–121 of IFRS 13)

Specific disclosure objective (paragraphs 118–119 of IFRS 13)

BC98 Users of financial statements who prepare enterprise value calculations said they need information to help them determine fair value amounts to put into those calculations. Some users need fair value amounts to input into their forecasting analyses. To perform such calculations and analyses, users need fair value information about some items that are not measured at fair value in the statement of financial position. Other IFRS Standards specify when disclosure of fair value information is required for items not otherwise measured at fair value. The requirements in IFRS 13 relate to how fair value is measured for those items and set out the required disclosures about that measurement.

3 https://cdn.ifrs.org/-/media/project/ifrs-taxonomy-2018-common-practice-ifrs-13/tu-2018-ifrs-13-common-practice.pdf

BC99 Feedback from users of financial statements indicated 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 items' nature and characteristics, for the same reasons discussed in paragraphs BC75–BC76. Consequently, the Board developed a specific disclosure objective to focus on the amount, nature and other characteristics of items not measured at fair value but for which fair value is disclosed.

Items of information to meet the objective (paragraphs 120–121 of IFRS 13)

BC100 The Board's proposed specific disclosure objective for items not measured at fair value but for which fair value is disclosed is the same as that described in paragraphs BC75–BC76 for items measured at fair value in the statement of financial position. Consequently, in developing items of information to meet that disclosure objective, the Board applied similar considerations to those described in paragraph BC77.

Other disclosure objectives and items of information considered but rejected by the Board

Forecast future fair value movements

BC101 The Board considered developing a disclosure objective that would require an entity to provide information that enables users of financial statements to forecast future fair value movements and their effect on the primary financial statements. Some users told the Board they want to include such forecasts in their analyses.

BC102 In the Board's view, the information need described in paragraph BC101 is about providing users of financial statements with information to help them predict for themselves how exposure to fair value might affect the entity in future periods. In the Board's view, information provided to meet the proposed specific disclosure objectives should help meet this need. Furthermore, the Board thinks that requiring an entity to provide information to facilitate users' future forecasting analyses would be impractical and difficult to enforce. Therefore, the Board decided not to develop a specific disclosure objective about forecasting future fair value movements.

Valuation processes

BC103 The Board considered whether information about valuation processes would help an entity to comply with the specific disclosure objectives relating to fair value measurement. However, users of financial statements said that other information would be more useful in meeting their needs. Consequently, the Board proposes to remove Illustrative Example 18, which illustrates the requirement in paragraph 93(g) of IFRS 13 for a description of the valuation processes used by the entity.

Basis for Conclusions on proposed amendments to IAS 19 *Employee Benefits*

Overview

BC104 The Board proposes to replace the disclosure requirements in IAS 19 with a new set of requirements developed applying the proposed Guidance. The sections that follow explain the Board's rationale for:

(a) the overall disclosure objective for defined benefit plans (paragraphs BC107–BC109);

(b) specific disclosure objectives for defined benefit plans (paragraphs BC110–BC145);

(c) specific disclosure objectives for defined benefit plans considered but rejected by the Board (paragraphs BC146–BC158);

(d) multi-employer plans and defined benefit plans that share risks between entities under common control (paragraphs BC159–BC166); and

(e) other employee benefit plans (paragraphs BC167–BC170).

BC105 In developing its proposals, the Board undertook a similar stakeholder outreach programme to that for fair value measurements (see paragraph BC58). Feedback from the Board's outreach activities demonstrated how the information entities provide when applying the disclosure requirements of IAS 19 could be improved. Stakeholders that participated in the outreach told the Board that employee benefit disclosures applying IAS 19 often do not meet the information needs of users of financial statements and are costly to prepare. For example, users often receive insufficient information about the cash flow effects of an entity's defined benefit plans while receiving detailed information that they find less useful—such as assumption-by-assumption sensitivity analysis. Users also highlighted challenges with ineffective communication—explaining that they often struggle to reconcile detailed employee benefit disclosures to the related amounts in the primary financial statements.

BC106 Consequently, the Board expects the proposed amendments to IAS 19 would result in the disclosure of information in the financial statements that is more relevant to users. IAS 19 disclosure requirements developed applying the proposed Guidance could facilitate the disclosure of information about employee benefits that is both more useful to users of financial statements and less costly to prepare than is often the case today.

Overall disclosure objective for defined benefit plans (paragraphs 147A–147C of IAS 19)

BC107 The Board proposes to include an overall disclosure objective for defined benefit plans. As described in paragraph D6 of the proposed Guidance, the overall disclosure objective would explain the overall needs of primary users of financial statements in relation to defined benefit plans and require an entity to consider whether, as a whole, the information provided by complying with the specific disclosure objectives in the Standard meets those information needs. For defined benefit plans, the Board expects, for example, that an entity will need to disclose additional information if material risks and uncertainties associated with an entity's plans would affect the entity's primary financial statements and have not been captured by the specific disclosure objectives. This user information need was identified repeatedly throughout the outreach programme.

BC108 The Board also proposes requiring entities to determine the appropriate level of aggregation and disaggregation in their employee benefits disclosures. The importance of appropriate levels of aggregation was a prevalent theme throughout the Board's discussions with stakeholders on defined benefit plan disclosures. Preparers of financial statements are concerned about the costs of providing detailed disclosures and say such disclosures are not always useful to users of financial statements. Users say that information needs to be sufficiently disaggregated to be useful.

BC109 To help entities identify methods of disaggregation that could provide useful information to users of financial statements, the Board included examples of features an entity could use to disaggregate information. The Board based these examples on paragraphs 137 and 138 of IAS 19. The Board observed that different features for disaggregation would be more or less useful depending on an entity's defined benefit arrangements. Therefore, an entity would need to apply judgement to determine the level and basis of disaggregation that delivers the most useful information in the entity's circumstances. The Board also observed that information about user needs in the specific disclosure objectives should help entities judge the level of disaggregation that will be most useful in meeting those needs.

Specific disclosure objectives for defined benefit plans

BC110 The paragraphs that follow explain the Board's rationale for the proposed specific disclosure objectives requiring entities to provide information about:

(a) amounts in the primary financial statements relating to defined benefit plans (paragraphs BC111–BC114);

(b) the nature of, and risks associated with, defined benefit plans (paragraphs BC115–BC120);

(c) expected future cash flows relating to defined benefit plans (paragraphs BC121–BC132);

(d) future payments to members of defined benefit plans that are closed to new members (paragraphs BC133–BC137);

(e) measurement uncertainties associated with the defined benefit obligation (paragraphs BC138–BC142); and

(f) reasons for changes in the amounts presented in the statement of financial position relating to defined benefit plans (paragraphs BC143–BC145).

Amounts in the primary financial statements relating to defined benefit plans (paragraphs 147D–147F of IAS 19)

Specific disclosure objective (paragraphs 147D–147E of IAS 19)

BC111 Users of financial statements said that it is often difficult and time-consuming for them to obtain a clear understanding of the effects of defined benefit plans on the primary financial statements. For example, users said that it can be difficult and time-consuming to understand:

(a) whether, and by how much, an entity's plans are in surplus or deficit;

(b) the effect of the plans on the statements of financial performance during the period; and

(c) the actual cash flows to and from the plans during the period.

BC112 Therefore, almost all users of financial statements that participated in the Board's outreach programme said disclosures about defined benefit plans would be significantly improved by including an upfront 'executive summary'. Other stakeholders were also sympathetic to these user needs and agreed that providing information to meet such an objective would be useful. The Board's view is that including a specific disclosure objective in IAS 19 that responds to this need will lead to a simple and effective improvement in disclosures about defined benefit plans with minimal incremental costs.

Items of information to meet the objective (paragraph 147F of IAS 19)

BC113 The Board's view is that information about the amounts relating to defined benefit plans recognised in each of the primary financial statements, and the components of those amounts, would always be necessary to meet the specific disclosure objective in paragraph 147D of the proposed amendments. Such information is necessary for a user of financial statements to understand the amounts in the primary financial statements arising from defined benefit plans. Consequently, the Board used prescriptive language (shall) for these items of information in the proposed amendments. The Board also proposed Illustrative Example 1 to IAS 19 to illustrate how an entity might comply with the specific disclosure objective.

BC114 The Board considered including narrative information in its list of items of information to meet the specific disclosure objective—for example, a narrative summary of the key features of an entity's defined benefit plans. However, in the Board's view, such narrative information would be similar to information an entity would need to provide to meet the objective about the nature of, and risks associated with, its defined benefit plans (paragraph 147G of the proposed amendments). To avoid any confusion or overlap between different requirements in the Standard, the Board did not include a reference to narrative information in paragraph 147F of the proposed amendments.

Nature of, and risks associated with, defined benefit plans (paragraphs 147G–147I of IAS 19)

Specific disclosure objective (paragraphs 147G–147H of IAS 19)

BC115 Defined benefit plans are any post-employment benefit plans other than defined contribution plans and can include many types of arrangement. In the Board's view, understanding the nature of and risks associated with defined benefit plans is necessary for users of financial statements to evaluate the effect the plans have on the entity. Preparers of financial statements told the Board that much of the information they would use to satisfy this user need is already available internally. Consequently, the Board concluded that a specific disclosure objective capturing this user need would require entities to disclose useful information with limited incremental cost.

BC116 Furthermore, the Board observed that entities often provide lengthy narrative information about their defined benefit plans, which users of financial statements do not find useful. In the Board's view, the proposed explanation of what any information provided is intended to help users of financial statements do will help entities to focus their disclosures on information which is useful to users.

BC117 The specific disclosure objective captures all risks associated with an entity's defined benefit plans. However, the Board highlighted information about investment risks in its disclosure objective because:

(a) users of financial statements have said that information about investment risks is useful for their analyses. Defined benefit obligations can be the biggest demand on an entity's resources and if plan assets are insufficient to meet those obligations, it is important for users to understand how the entity intends to meet the shortfall.

(b) the Board understands that defined benefit plans increasingly use complex investment strategies and, consequently, information about investment strategies and their associated risks is becoming increasingly important to users.

(c) the Board's other proposed specific disclosure objectives capture many of the risks associated with the defined benefit obligation.

Items of information to meet the objective (paragraph 147I of IAS 19)

BC118 Outreach with users of financial statements, and other research performed by the Board, identified many items of information that may help an entity to meet the specific disclosure objective. In the Board's view, the most useful information will vary depending on an entity's defined benefit arrangements. The Board developed a comprehensive list of items of information to:

(a) clearly communicate the types of information the Board contemplated when developing the specific disclosure objective; and

(b) help entities determine how to meet the objective most effectively.

BC119 Consistent with the Board's approach across the two test Standards, the Board does not expect all entities to disclose every item of information in paragraph 147I of the proposed amendments, nor does it expect entities to limit the information disclosed to that listed. Instead, it expects an entity to apply judgement and assess what information is useful in its circumstances. For example:

(a) an entity with a mix of defined benefit plans that are open and defined benefit plans that are closed to new members may need to disclose more granular information about the different benefits promised to members of those plans, and associated risks to the entity, than an entity with defined benefit plans that are all closed to new members.

(b) an entity with an unfunded defined benefit plan may meet the objective by describing the policies and processes in place to manage the funding risks in the plan. On the other hand, an entity with a funded or partly funded defined benefit plan may be able to meet the objective by describing the fair value of its plan assets and the associated investment strategies for the plans.

BC120 Entities will need to apply judgement to determine how to comply with the specific disclosure objective and may need to disclose one, some or all of the items of information listed in the Standard. Entities may also need to disclose additional entity-specific information to satisfy the specific disclosure objective (see paragraph DG12 of the proposed Guidance).

Expected future cash flows relating to defined benefit plans (paragraphs 147J–147M of IAS 19)

Specific disclosure objective (paragraphs 147J–147K of IAS 19)

BC121 Almost all users of financial statements who participated in the Board's outreach programme said that information about the expected effects of defined benefit plans on an entity's future cash flows is useful to their analyses, with many confirming this to be the most relevant information they could receive about defined benefit plans. Entities and other stakeholders agreed that such information would be useful to users. Entities added that questions from users about defined benefit plans often relate to their cash flow effects and confirmed it would be feasible to provide relevant information to meet user needs in this area without incurring significant costs. The Board concluded that a specific disclosure objective capturing user needs about the cash flow effects of defined benefit plans could lead to a significant improvement in employee benefit disclosures.

BC122 In developing the specific disclosure objective, the Board considered guidance in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*), which states that 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.[4] The Board observed that much of the useful information an

4 Paragraph 3.6 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).

entity can provide about the expected future cash flow effects of a defined benefit plan meets this criterion because it relates to the defined benefit obligation that exists at the end of the reporting period. 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. Furthermore, feedback suggests that the majority of defined benefit plans are closed to both new members and to the accrual of further benefits to current members. For such plans, all future cash flow effects will relate to the defined benefit obligation at the end of the reporting period.

BC123 However, the Board observed that, if a defined benefit plan remains open to new members or to the accrual of further benefits to current members, some of its expected future cash flow effects would be unrelated to addressing the defined benefit obligation that exists at the end of the reporting period. This applies, for example, to expected future contributions for employee services to be received in the future, or to the expected cash flow effects of future new members of the plan. The Board decided to explicitly refer to the defined benefit obligation recognised at the end of the reporting period in the proposed specific disclosure objective to make clear that an entity is not required to provide information about future cash flow effects that are not related to addressing the defined benefit obligation at the end of the reporting period. Although users of financial statements said information about the total expected future cash flow effects would be the most useful information they could receive about defined benefit plans, the Board concluded that requiring such information would go beyond the remit of financial statements. However, as discussed in paragraphs BC127–BC129, the Board decided to highlight that providing information on a basis that includes expected future cash flows beyond those related to addressing the defined benefit obligation that exists at the end of the reporting period is permitted.

Items of information to meet the objective (paragraphs 147L–147M and A2–A7 of IAS 19)

BC124 The Board proposes to include in IAS 19 items of information that, while not mandatory, may enable an entity to meet the specific disclosure objective about expected cash flow effects of defined benefit obligations. The Board also proposes to:

(a) include application guidance to help an entity judge how to effectively meet the specific disclosure objective in its circumstances; and

(b) require an entity to explain the methods used in preparing information to meet the specific disclosure objective.

BC125 In developing these proposals, the Board considered how entities with different defined benefit plans could effectively meet the information needs of users of financial statements. The Board also considered whether different items of information are feasible for all entities to produce. Feedback through the Board's outreach programme showed that in some cases an entity can incur more cost by providing only the required information than by providing information that goes beyond what the specific disclosure objective requires. Such information would also be more useful to users. Consequently, the Board considered items of information that would directly meet the specific disclosure objective (paragraph BC126) and items of information that go beyond that objective (paragraphs BC127–BC129).

Information to meet the requirement in the specific disclosure objective (paragraphs 147L(a)–(b) and A4–A5 of IAS 19)

BC126 The Board proposes to include items of information that may enable an entity to meet the requirement in the specific disclosure objective and do not go beyond the requirement in that objective. The Board observed that such information is likely to be the most effective way to meet the specific disclosure objective for many entities—for example, entities with defined benefit plans that are:

(a) closed to new members and to the accrual of further benefits to current members. In these cases, all future cash flow effects will relate to the defined benefit obligation at the end of the reporting period.

(b) subject to agreements with plan trustees or managers about how the entity will fund any deficit in the plan. Such agreements might apply if an entity has agreed to make a set of deficit repair payments that are monitored and managed separately from any future normal payroll contributions expected under the plan. In the Board's view, an entity subject to such agreements can feasibly disclose information about future cash flow effects of the defined benefit obligation at the end of the reporting period.

Information that goes beyond the requirement in the specific disclosure objective (paragraphs 147L(c)–(d) and A6–A7 of IAS 19)

BC127 Feedback from preparers of financial statements and other stakeholders indicates that, for plans that remain open to the accrual of further benefits to members, entities often monitor and manage their own information about the expected future cash flow effects without differentiating by the nature of the future cash flows. For example, if an entity has a plan in deficit and reports information about expected future cash flow effects to plan trustees, the entity is likely to assess those future effects based on actuarial calculations that incorporate payments expected to be needed to fund the current deficit and payments for future employee services (see paragraph BC123). In the Board's view—shared with users of financial statements that provided feedback— information that combines these two types of payment is effective in meeting user needs.

BC128 Consequently, the Board decided that including items of information that go beyond the requirements in the disclosure objective could benefit both preparers and users of financial statements. The proposed amendments do not require entities to disclose such information, but instead treat its disclosure as one possible way to meet the specific disclosure objective. In the Board's view, including such information would:

(a) help entities consider different ways of meeting user needs.

(b) in some cases, enable entities to provide information that is both less costly and more useful to users than information that does not go beyond the requirements in the specific disclosure objective. This may apply, for example, to defined benefit plans that remain open to further accruals of benefits to members.

BC129 The Board considered requiring an entity that chooses to disclose information beyond that required to meet the specific disclosure objective to separately identify such additional information. This would require an entity to disaggregate expected future cash flow effects that relate directly to addressing the defined benefit obligation at the end of the reporting period from other expected future cash flow effects. In the Board's view, disaggregating that information is likely to be unduly costly for some entities. Disaggregation would be costly because in some jurisdictions separate actuarial and funding calculations that would form the basis of an entity's information are not performed and disaggregating the calculation into its component parts would not be straightforward. However, the Board proposes to require an entity to disclose an explanation of its approach to meeting the specific disclosure objective in paragraph 147J of the proposed amendments. In the Board's view, this explanation is necessary to enable a user to understand the information provided in response to the specific disclosure objective.

Other considerations

BC130 The Board considered the basis on which entities might provide information about the expected future cash flow effects of a defined benefit obligation. Users of financial statements told the Board that any quantitative information about future contributions is useful, regardless of its source. However, the Board is aware of concerns about entities disclosing information based on, for example, management expectations and forecasts that are not subject to any formal agreement. Some think that such information might be unverifiable and difficult to audit. The Board observed that the disclosure objective in paragraph 147J of the proposed amendments does not require an entity to disclose information based on management expectations or forecasts. However, the Board did not want to prevent an entity from disclosing useful information and concluded that an entity would not include information in the financial statements that is not prepared on a robust and auditable basis when providing these disclosures. For example, if an entity discloses information in the financial statements about future contributions based on management expectations or forecasts, the Board expects auditors to have access to management-approved forecasts and any supporting evidence for the basis of those forecasts. Furthermore, the Board does not see such information as fundamentally different from that disclosed in respect of other aspects of the financial statements that require management judgement and are based on estimates.

BC131 Finally, the Board considered whether to specify a minimum period over which an entity should provide information about the expected future cash flow effects of a defined benefit obligation. However, in the Board's view, enabling entities to apply judgement based on their own circumstances would facilitate the disclosure of more useful information. For example, some entities may have information about their expected contributions until the year of their last expected contribution. Other entities may have information only for the next few reporting periods. In the Board's view, requiring such entities to prepare additional information about expected contributions only for the purpose of disclosure is unlikely to have benefits that exceed costs. This is because users of financial statements are likely to be interested in similar information to that monitored by management and used to inform decision-making. Therefore, the period that provides the most useful information to users of financial statements is likely to differ between entities.

BC132 The Board proposed Illustrative Examples 2–4 to help entities apply judgement and determine the most effective way to meet the specific disclosure objective in different circumstances.

Future payments to members of defined benefit plans that are closed to new members (paragraphs 147N–147P of IAS 19)

Specific disclosure objective (paragraphs 147N–147O of IAS 19)

BC133 The Board proposes a specific disclosure objective to require entities to disclose information that enables users of financial statements to understand the period over which the entity will continue to make payments to members of its defined benefit plans that are closed to new members. The Board developed this objective in the light of feedback that users want to know how long defined benefit plans will continue to affect the entity—that is, for how long can users expect to keep 'worrying' about defined benefit obligations?

BC134 The specific disclosure objective only requires information for defined benefit plans that are closed to new members. The period over which the entity will continue to make payments is unlikely to change significantly if a plan is closed to new members and, therefore, provides meaningful information to users of financial statements about how long the plan will continue to affect the entity.

BC135 The Board considered also requiring an entity to provide information to enable users of financial statements to understand the profile of expected future payments to members of closed plans. However, the Board decided against this approach because:

(a) users confirmed that their primary need was to understand the period over which a defined benefit obligation is expected to wind down. Users do not need detailed information about the expected payment profile to satisfy this need.

(b) preparers of financial statements were concerned about the feasibility of providing information about future expected payments to plan members.

(c) the Board agreed with preparers that said detailed information about payments to members is more relevant to the financial statements of the defined benefit plan itself than those of the reporting entity.

Items of information to meet the objective (paragraph 147P of IAS 19)

BC136 The Board's proposed items of information focus on the period over which an entity expects to continue making payments to members of defined benefit plans that are closed to new members. In the Board's view, such information will be effective in meeting the needs of users of financial statements about how long an entity's defined benefit plans will continue to affect the financial statements.

BC137 The Board considered also including a maturity profile of the defined benefit obligation in its list of items of information. However, the Board decided against this approach for similar reasons to those described in paragraph BC135.

Measurement uncertainties associated with the defined benefit obligation (paragraphs 147Q–147S of IAS 19)

Specific disclosure objective (paragraphs 147Q–147R of IAS 19)

BC138 The Board proposes a specific disclosure objective requiring entities to disclose information that enables users of financial statements to understand the significant actuarial assumptions used in measuring the defined benefit obligation. The proposals explain that users need such information to assess the measurement uncertainties associated with determining the defined benefit obligation.

BC139 Defined benefit plans are long term in nature and their valuation requires the use of significant judgements and estimates. In the Board's view, a faithful representation of an entity's defined benefit obligation includes an explanation of the uncertainties affecting its measurement. Users of financial statements also want information that enables them to assess whether the assumptions used are reasonable and consistent with their own expectations. Such information also enables users to assess whether and how to include potential measurement uncertainty in their analyses.

BC140 The Board does not expect an entity to disclose every assumption used in determining its defined benefit obligation. Instead, the Board expects an entity to provide information about the assumptions that are significant to the measurement of the defined benefit obligation to satisfy the disclosure objective in paragraph 147Q of the proposed amendments. Such an approach is consistent with paragraph 127 of IAS 1, which states that assumptions and other sources of estimation uncertainty to be disclosed should relate to the estimates that require management's most difficult, subjective or complex judgements.

Items of information to meet the objective (paragraph 147S of IAS 19)

BC141 The Board 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. The Board observed that different information is likely to be more or less relevant depending on an entity's circumstances. For example, information about the entity's assessment of reasonably possible alternative assumptions at the reporting date would allow users of financial statements to assess the range of possible values for the defined benefit obligation—and thereby the level of measurement uncertainty—themselves. On the other hand, an entity that performs its own assessment of the range of reasonably possible values may find disclosing a direct explanation about how measurement uncertainty has affected measurement of the defined benefit obligation easier than disclosing information about the assumptions.

BC142 Having decided to refer to significant assumptions in the specific disclosure objective, the Board considered including an explanation of why the assumptions used were significant for the entity in its list of items of information that may enable an entity to meet the objective. However, the Board concluded that such an approach might lead to the provision of boilerplate information, and that information about an entity's approach to determining the assumptions used is more likely to provide useful entity-specific information.

Reasons for changes in the amounts presented in the statement of financial position relating to defined benefit plans (paragraphs 147T–147W of IAS 19)

Specific disclosure objective (paragraphs 147T–147U of IAS 19)

BC143 The Board developed an objective requiring entities to disclose information about the significant reasons for changes in the amounts included in the statement of financial position, in response to feedback from users of financial statements that understanding why amounts in the statement of financial position have changed during the period is useful to the users' analyses. For example, information about reasons for changes in the net defined benefit liability or asset helps users to understand the measurement of that net defined benefit liability or asset. This information also helps some users to identify amounts to include in their analyses.

Items of information to meet the objective (paragraphs 147V–147W of IAS 19)

BC144 Users of financial statements provided mixed views on the level of granularity of information that would meet their needs about reasons for changes in the amounts presented in the statement of financial position. Some users said that a complete numerical reconciliation from opening to closing amounts of the net defined benefit liability or asset provides useful information, whereas other users said they only use specific line items from such a reconciliation. In developing items of information to meet the objective, the Board considered treating a reconciliation as one way to meet the disclosure objective, but not the only way. However, applying similar considerations to those in paragraphs BC92–BC93, the Board decided to require a reconciliation from opening to closing balances identifying the significant reasons for changes in the net defined benefit liability or asset.

BC145 The Board observed that to meet the needs of users of financial statements about reasons for changes in the amounts presented in the statement of financial position, some entities will need to provide information about the reasons for changes in any reimbursement rights. To help those entities determine what information to disclose, the proposals include items of information about the reasons for changes in any reimbursement rights that, while not mandatory, may help an entity to meet the specific disclosure objective on reasons for changes in the amounts presented in the statement of financial position.

Specific disclosure objectives for defined benefit plans considered but rejected by the Board

BC146 The Board considered, but rejected, proposing specific disclosure objectives about:

(a) alternative defined benefit plan valuations (paragraphs BC147–BC149);

(b) the sensitivity of the defined benefit obligation to different assumptions (paragraphs BC150–BC153); and

(c) forecasting future defined benefit obligations (paragraphs BC154–BC155).

Alternative defined benefit plan valuations

BC147 The Board considered developing a specific disclosure objective that would require an entity to provide information to enable users of financial statements to understand alternative valuations of a defined benefit plan at the reporting date. Such an approach would respond to the needs of those users who want to use valuations in their analyses other than the valuation prescribed by the IAS 19 measurement requirements. For example, some users would like to use a buyout value in their analyses—that is, the cost for an entity to transfer its defined benefit obligation to a third party. Other users would like to adjust the IAS 19 valuation to arrive at what they consider to be a 'debt-like' defined benefit obligation.

BC148 Many users of financial statements told the Board that when entities include alternative defined benefit plan valuations in the financial statements, understanding how and why the valuations differ from the IAS 19 valuation is difficult. These users said that if an entity has performed an alternative valuation, they would like the entity to disclose that alternative valuation, along with an explanation of how and why it differs from the IAS 19 valuation.

BC149 However, the Board decided not to develop a specific disclosure objective about alternative defined benefit plan valuations because:

(a) different users of financial statements are interested in different valuations. In the Board's view, entities cannot realistically meet the needs of each of those users. Furthermore, when developing Standards, the Board seeks to provide information that will meet the common information needs of primary users.[5]

(b) much of the information that an entity would provide to meet such an objective would constitute educational material about the differences between defined benefit plan valuation methods. Such information would not be entity-specific.

(c) stakeholders other than users were concerned that information to comply with such an objective would be costly to provide.

Sensitivity of the defined benefit obligation to different assumptions

BC150 The Board considered developing a specific disclosure objective that would require an entity to provide information that enables users of financial statements to understand the sensitivity of the defined benefit obligation to different assumptions. Such an approach would respond to feedback from users who want to:

(a) understand the range of possible values for an entity's defined benefit obligation at the end of the reporting period;

(b) understand where the entity's valuation of the defined benefit obligation falls within that range;

(c) understand the effect on an entity's defined benefit obligation of interrelationships between different assumptions, including assumptions with non-linear effects; and

(d) compare sensitivities across different defined benefit plans and across entities.

BC151 The Board also considered feedback from other stakeholders who shared concerns about the costs of providing detailed sensitivity analysis and questioned whether such analysis would be the most useful information that users of financial statements could receive about defined benefit plans.

BC152 In the Board's view, the primary information needs identified in paragraph BC150 are those relating to measurement uncertainty. The Board's view is consistent with feedback received at a joint meeting between preparers and users of financial statements at which users confirmed that information about the range of possible values is more useful to their analyses than information about interrelationships between assumptions. The Board observed that while IAS 19 currently requires the disclosure of detailed sensitivity information, feedback suggested that the information provided in

5 Paragraph 1.8 of the *Conceptual Framework*.

response to those requirements is typically costly to prepare and is not the most useful information for users.

BC153 The Board concluded that entities would meet the primary information needs of users of financial statements by complying with the specific disclosure objective in paragraph 147Q of the proposed amendments, which requires an entity to disclose information that enables users to understand the significant actuarial assumptions used in determining the defined benefit obligation. In the Board's view, that information will give users a reasonable idea of the range of possible values for the defined benefit obligation and enable users to compare the level of measurement uncertainty in defined benefit obligations between entities. In the light of the feedback received, the Board decided that the benefits provided by more detailed sensitivity information would not outweigh the cost to entities of providing that information. Consequently, the Board decided not to develop a specific disclosure objective about sensitivity of an entity's defined benefit obligation to different assumptions.

Forecasting future defined benefit obligations

BC154 The Board considered developing a specific disclosure objective that would require an entity to provide information that enables users of financial statements to forecast future defined benefit obligations. Users told the Board that they want to include such forecasts in their analyses.

BC155 The Board understands that such information would help users of financial statements predict how the defined benefit obligation will affect the entity in future. In the Board's view, information provided to meet the proposed specific disclosure objectives should help with this need. Furthermore, the Board thinks that requiring an entity to provide information to enable users to forecast future defined benefit obligations would be impractical and difficult to enforce. Therefore, the Board decided not to develop a specific disclosure objective about information related to forecasting an entity's defined benefit obligation.

Defined contribution plans (paragraph 54A of IAS 19)

BC156 Users of financial statements told the Board they understand well the risks associated with defined contribution plans and are unlikely to spend a lot of time analysing information about those plans. However, the Board observed that:

(a) users would like to understand how an entity's defined contribution plans have affected the primary financial statements.

(b) 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.

(c) entities have moved away from defined benefit plans and towards defined contribution plans. Defined contribution plans pose little risk to the entity, but information about how the plans have affected the primary financial statements is especially important given their increasing prevalence.

BC157 In the light of the considerations in paragraph BC156, the Board included an overall disclosure objective in IAS 19 about defined contribution plans. The Board decided to focus that objective on the effects that defined contribution plans have on an entity's statements of financial performance and cash flows, because such plans are unlikely to significantly affect the statement of financial position at the end of the reporting period.

BC158 In the Board's view, the proposed overall disclosure objective communicates the important information needs of users of financial statements about defined contribution plans. Consequently, the Board decided not to develop any specific disclosure objectives for defined contribution plans.

Multi-employer plans and defined benefit plans that share risks between entities under common control

Disclosure objectives (paragraphs 54A, 148A, 148C, 149A and 149C of IAS 19)

BC159 In the Board's view, multi-employer defined contribution plans expose the participating entities to similar risks as other defined contribution plans. Consequently, the Board proposes that an entity participating in a multi-employer defined contribution plan should be required to comply with the overall disclosure objective for defined contribution plans (see paragraph 54A of IAS 19).

BC160 IAS 19 permits an entity with a multi-employer defined benefit plan to account for its participation as if it were a defined contribution plan if the entity has insufficient information to apply defined benefit accounting. 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 (see paragraph 41 of IAS 19). Paragraphs 148A and 149A of the proposed amendments would require these entities to comply with the overall disclosure objective for defined contribution plans and the specific disclosure objective proposed in paragraph 147G that requires an entity to disclose information that enables users of financial statements to understand:

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

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

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

BC161 In developing the proposals in paragraphs 148A and 149A of the proposed amendments, the Board observed that an entity accounting for a multi-employer defined benefit plan as if it were a defined contribution plan or a defined benefit plan that shares risks between entities under common control by recognising a cost equal to the entity's contribution payable for the period is exposed to many of the risks associated with other defined benefit plans. In the Board's view, 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 the proposed specific disclosure objectives for defined benefit plans.

BC162 In the Board's view, an entity should have a clear understanding of the nature of, and risks associated with, its participation in a multi-employer defined benefit plan or a defined benefit plan that shares risks between entities under common control. In the Board's view, information about that exposure to risk is the most important information to users of financial statements. Consequently, the Board decided to require an entity accounting for a multi-employer defined benefit plan as if it were a defined contribution plan or a defined benefit plan that shares risks between entities under common control by recognising a cost equal to the entity's contribution payable for the period to comply with the specific disclosure objective about the nature of, and risks associated with, defined benefit plans in paragraph 147G of the proposed amendments.

BC163 Paragraphs 148C and 149C of the proposed amendments require entities that account for multi-employer defined benefit plans as defined benefit plans and defined benefit plans that share risks between entities under common control by accounting for an allocation of the net defined benefit cost in accordance with paragraph 41 of IAS 19 to comply with the disclosure objectives for all defined benefit plans. In the Board's view, multi-employer defined benefit plans and defined benefit plans that share risks between entities under common control expose the participating entities to the same risks as any other defined benefit plan.

Items of information to meet the objectives (paragraphs 148B, 148D, 149B, 149D and 150 of IAS 19)

BC164 In the Board's view, items of information similar to those in the proposals for all other defined benefit plans may enable an entity to meet the specific disclosure objectives for multi-employer defined benefit plans accounted for as defined benefit plans and defined benefit plans that share risks between entities under common control accounted for using an allocation of the net defined benefit cost.

BC165 The proposed amendments also identify additional items of information that might help an entity to meet the specific disclosure objective in proposed paragraph 147G of IAS 19 for multi-employer defined benefit plans and defined benefit plans that share risks between entities under common control regardless of the accounting method. The Board observed that particular risks and characteristics specific to these plans do not exist for other defined benefit plans, and that highlighting such risks in the Standard would be helpful.

BC166 The Board does not expect entities to duplicate information about defined benefit plans that share risks between entities under common control that is already available to users of financial statements. Consequently, the proposed amendments allow an entity with such a plan to cross-refer to information in another group entity's publicly available financial statements, provided that information is available to users on the same terms and at the same time as the entity's financial statements. The Board observed that an entity can only use this approach if information included by way of cross reference is in a location that will remain accessible to users of the entity's financial statements indefinitely.

Other employee benefits (paragraphs 25A, 158A and 171A of IAS 19)

BC167 Users of financial statements told the Board that other types of employee benefits are generally easy to understand and unlikely to affect their analyses. Such benefits include short-term employee benefits, other long-term employee benefits and termination benefits. When these benefits are material to the entity, users want to understand the effect they have on the primary financial statements. Consequently, the Board proposes overall disclosure objectives requiring an entity to disclose this information.

BC168 The Board observed that short-term employee benefits are unlikely to have a significant effect on an entity's financial position. Applying similar considerations to those for defined contribution plans (paragraphs BC156–BC158), the Board decided to focus the proposed overall disclosure objective for short-term employee benefits on the effect these benefits have on an entity's financial performance and cash flows. On the other hand, other long-term employee benefits and termination benefits can significantly affect all of the primary financial statements, and the Board reflected this in its proposals.

BC169 The Board also observed that other long-term employee benefits and termination benefits can vary widely in nature—for example, in terms of the promises made to employees and obligations incurred by the entity. In the Board's view, 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.

BC170 In the Board's view, the proposed overall disclosure objective effectively communicates the primary information needs of users of financial statements about other types of employee benefit. Consequently, the Board decided not to develop any specific disclosure objectives for these benefits.

Expected effects of the proposals

BC171 The Board is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing application costs and benefits of those requirements; these costs and benefits are collectively referred to as 'effects'. The Board gains insight on the likely effects of proposed new requirements through its formal exposure of the proposals and through its fieldwork, analysis and consultations.

BC172 The sections that follow discuss the likely effects of the proposals:

(a) a summary of effects analysis (paragraphs BC175–BC183);

(b) entities affected by the Board's proposals (paragraphs BC184–BC187);

(c) the likely effects of any disclosure requirements developed using the proposed Guidance, specifically:

 (i) the likely effects on stakeholder behaviour (paragraphs BC188–BC191);

 (ii) the likely effects on the quality of financial reporting (paragraphs BC192–BC200);

 (iii) the likely costs of the proposals (paragraphs BC201–BC206);

 (iv) the likely effects on electronic reporting (paragraphs BC207–BC212);

(d) the likely effects specific to the proposed amendments to IFRS 13 and IAS 19:

 (i) the likely effects of the proposed amendments on fair value measurement disclosures (paragraphs BC214–BC215);

 (ii) the likely effects of the proposed amendments on employee benefit disclosures (paragraphs BC216); and

 (iii) the likely costs of the proposed amendments (paragraphs BC217–BC220).

BC173 The analysis of these effects (effects analysis) is mainly qualitative, rather than quantitative. Initial and subsequent costs and benefits are likely to vary among stakeholders. Quantifying costs and, particularly, benefits is both subjective and difficult. No sufficiently well-established and reliable techniques quantify either costs or benefits in this type of analysis. The analysis is also of the likely effects of the proposed requirements rather than the actual effects, because actual effects cannot be known before application. The Board considers actual effects through its post-implementation reviews.

BC174 The Board has sought to understand the potential effects of its proposals throughout the development of this Exposure Draft. When deciding on its approach to the project, the Board considered feedback from 108 comment letter respondents to the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (see paragraph BC4), and held more than 200 meetings with users of financial statements, preparers of financial statements, accounting firms, standard-setters, regulators and academics. Participants at those meetings discussed how the Board could most effectively help to address the disclosure problem, and the likely effects of different approaches on stakeholder behaviour towards disclosures in financial statements. Since adding the project to its work plan, the Board discussed the project proposals and their likely effects on eight occasions with its advisory bodies and consultative groups—the Capital Markets Advisory Committee, the Global Preparers Forum and the Accounting Standards Advisory Forum. The Board discussed the implications of the proposals for electronic reporting with the IFRS Taxonomy Consultative Group. Furthermore, Board members and staff performed outreach with 35 users of financial statements about their information needs relating to disclosures on employee benefits and fair value measurements. Board members and staff met individual users or small groups of users to facilitate in-depth discussion and enable the Board to understand their feedback in detail. Board members and staff also discussed the project in meetings with preparers, auditors and regulators.

Summary of effects analysis

The likely effects of any disclosure requirements developed using the proposed Guidance

BC175 The Board expects application of disclosure requirements developed using the proposed Guidance to result in changes to the way that stakeholders approach the preparation, review, audit and enforcement of disclosures in financial statements. Specifically, the Board expects use of the proposed Guidance to:

(a) result in increased application of judgement by:

(i) entities in deciding what to disclose to meet disclosure objectives, and how to most effectively communicate that information;

(ii) auditors and regulators in assessing whether the disclosed information satisfies disclosure objectives; and

(b) discourage preparers of financial statements, auditors and regulators from applying disclosure requirements only as a checklist.

BC176 The Board also expects application of disclosure requirements developed using the proposed Guidance to provide users of financial statements with information that is more useful. Improved information would be a consequence of the expected behavioural changes described in paragraph BC175. Specifically, the Board expects application of disclosure requirements developed using the proposed Guidance to result in:

(a) information that is more relevant and entity-specific;

(b) less irrelevant information; and

(c) improved communication of the information provided.

BC177 The Board expects the most significant implementation costs of disclosure requirements developed using the proposed Guidance would arise from behavioural changes (paragraphs BC188–BC191)—in particular, the need to apply judgement rather than applying the disclosure requirements in IFRS Standards like a checklist. For example, if an entity has not previously applied materiality judgements across its financial statement disclosures (see paragraph BC189), application of disclosure requirements developed using the proposed Guidance would require increased involvement by senior management. This is because applying disclosure requirements like a checklist can be outsourced or delegated while entity-specific judgements would often require the input of senior management. The Board expects that involvement by senior management would benefit the quality of financial statement disclosures but would also incur a resource cost.

BC178 The Board expects the costs of implementation would be most significant in the first year. However, ongoing costs would also be associated with the need for continued application of judgement. For example, an entity rolling forward prior period disclosures would need to consider whether the information provided continues to meet disclosure objectives based on current facts and circumstances. However, the Board expects those costs would reduce in subsequent years as the behavioural changes brought about by the proposals become more familiar to entities. The Board also expects the proposals to help reduce the burden of preparing disclosures in the financial statements on an ongoing basis because the proposals should help entities to eliminate irrelevant information from the financial statements.

The likely effects of the proposed amendments to IFRS 13 and IAS 19

BC179 The Board expects the proposed amendments to IFRS 13 to result in:

(a) improvements in the relevance of information about fair value measurements that are material to the financial statements and subject to measurement uncertainty; and

(b) less irrelevant or excessively detailed information about fair value measurements that are not material to the financial statements.

BC180 The Board expects the proposed amendments to IAS 19 to result in improvements to disclosures about an entity's defined benefit plans, including:

(a) more relevant and entity-specific information about the expected future cash flow effects of defined benefit obligations;

(b) less irrelevant or excessively detailed information about assumption-by-assumption sensitivity analysis and the maturity profile of the defined benefit obligation that is costly for entities to prepare; and

(c) more effective communication about the amounts in the primary financial statements relating to defined benefit plans and the nature of and risks associated with these plans.

BC181 The Board expects that entities already hold most of the information needed to comply with the proposed amendments to IFRS 13 and IAS 19. Consequently, the Board does not expect entities applying the proposed amendments to incur significant costs in gathering information and adjusting systems. Furthermore, the proposed amendments would only affect disclosure requirements—they would not affect recognition and measurement requirements. Consequently, the proposals are expected to have fewer significant systems implications for entities than amendments to recognition and measurement requirements.

Overall assessment

BC182 The Board concluded that the benefits in terms of expected improvements to financial reporting as a result of the proposed amendments to IFRS 13 and IAS 19 outweigh the expected costs of implementing and applying the proposals. In particular, the Board acknowledges that preparers of financial statements, auditors and regulators may find adopting a new approach to the preparation and review of disclosures in financial statements challenging. However, in the Board's view, the behavioural changes that the proposed amendments should bring about could have significant benefits for the quality of financial reporting.

BC183 Paragraphs BC184–BC220 provide a more detailed analysis of the expected effects of the Board's proposals.

Entities affected by the Board's proposals

BC184 The proposed amendments to IFRS 13 and IAS 19 would apply to all entities that prepare disclosures in financial statements about fair value measurements and employee benefits applying IFRS Standards.

BC185 The magnitude of change introduced by the proposals would vary depending on the nature and range of the entity's fair value measurements and employee benefits as well as the practices the entity uses in preparing disclosures about them in its financial statements. The proposals would not affect recognition and measurement of any assets, liabilities, equity, income or expenses.

BC186 The proposed amendments to IFRS 13 and IAS 19 would have an immediate effect on entities if finalised (subject to the effective date of the final amendments).

BC187 After testing, the Board may decide to apply the proposed Guidance to its future standard-setting projects. In this case, the effects summarised in paragraphs BC188–BC212 would apply to all entities preparing financial statements applying IFRS Standards.

The likely effects of any disclosure requirements developed using the proposed Guidance

The likely effects on stakeholder behaviour

BC188 As described in paragraph BC5, the Board's research demonstrates that:

(a) entities often approach disclosures in financial statements as a compliance exercise, rather than as a means of effective communication with users of financial statements. Specifically, entities often apply disclosure requirements in IFRS Standards like a checklist.

(b) auditors and regulators often adopt a similar checklist approach when assessing an entity's compliance with disclosure requirements in IFRS Standards.

BC189 These stakeholder behaviours mean that, often, materiality judgements are not applied effectively to financial statement disclosures. This is partly because entities sometimes do not understand the reason for particular disclosure requirements and so do not have a basis on which to exercise judgement. In addition, entities:

(a) disclose immaterial information because doing so is easier than justifying why information prescribed by IFRS Standards does not need to be disclosed;

(b) do not always consider whether there is any material, entity-specific information beyond that explicitly prescribed by IFRS Standards that needs to be disclosed; and

(c) treat disclosures as a compliance exercise and, therefore, do not spend time considering how to effectively communicate information.

BC190 The Board expects that disclosure requirements developed using the proposed Guidance would significantly affect the behaviour of preparers of financial statements, auditors and regulators. Specifically, the Board expects disclosure requirements developed using the proposed Guidance to:

(a) promote the application of judgement in deciding what information to disclose, and how to effectively communicate that information; and

(b) 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.

BC191 The table below summarises the expected effects of disclosure requirements developed using the proposed Guidance on stakeholder behaviour.

Table 5 Expected effects on stakeholder behaviour

Current situation	Likely effects of disclosure requirements developed using the proposed Guidance
Entities applying the disclosure requirements in a Standard—overview	
• Prescriptive disclosure requirements in IFRS Standards require an entity to disclose particular items of information (an entity shall disclose…). • Entities typically disclose information—often including boilerplate compliance statements—in response to each requirement. Entities can comply with prescriptive requirements without applying significant judgement.	• Entities would be required to disclose information that satisfies disclosure objectives based on the information needs of users of financial statements. • An entity would need to apply judgement to determine what information would satisfy the objectives based on the entity's circumstances. Consequently, the proposals require entities to focus disclosures on information that is useful to users.
Entities considering immaterial information in the financial statements	
• IAS 1 *Presentation of Financial Statements* states that an entity need not provide a disclosure required by an IFRS Standard if the information resulting from that disclosure is not material. • Feedback on the Discussion Paper indicated that many entities think prescriptive disclosure requirements in IFRS Standards override this general requirement in IAS 1. Consequently, entities often include immaterial information to comply with the prescriptive disclosure requirements.	• Immaterial information would not help an entity to meet objective-based disclosure requirements. Consequently, the proposals would help entities to eliminate immaterial information from the financial statements.

continued...

...continued

<table>
<tr><th>Current situation</th><th>Likely effects of disclosure requirements developed using the proposed Guidance</th></tr>
<tr><td colspan="2">Entities considering whether additional information is needed</td></tr>
<tr><td>IAS 1 requires an entity to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the effect of transactions, other events and conditions on the entity's financial position and financial performance.
In practice, it can be difficult for entities to identify additional information that should be disclosed in response to this general requirement in IAS 1. Feedback on the Discussion Paper indicated that this is for two main reasons:
a lack of disclosure objectives—making it difficult for entities to understand what users need; and
time and resources instead being spent on applying disclosure requirements like a checklist.</td><td>Overall and specific disclosure objectives in IFRS Standards would reinforce the requirements in IAS 1. To achieve compliance, entities would be required to apply judgement and disclose sufficient information to meet the objectives.
Specific disclosure objectives in IFRS Standards would be accompanied by explanations about what users of financial statements want to do with information provided to meet the objective. These explanations would help entities better understand why information is useful and determine how best to meet that need in their own case.
Overall disclosure objectives in IFRS Standards would require entities to consider whether they need to provide additional information in the financial statements.</td></tr>
</table>

continued...

...continued

Current situation	Likely effects of disclosure requirements developed using the proposed Guidance
Auditors and regulators assessing whether disclosure requirements are satisfied	
• To assess compliance with prescriptive disclosure requirements in IFRS Standards, auditors and regulators need to ask only whether an entity has provided the specific piece of information the Standard requires. • Auditors and regulators can therefore often assess compliance with prescriptive requirements without making any judgement about the usefulness of the information provided. They do not need to question whether that information meets the needs of users of financial statements. • If an entity has provided the item of information specified in a Standard, auditors and regulators have little basis on which to challenge the relevance or communication effectiveness of that information.	• To assess compliance with objective-based disclosure requirements, auditors and regulators would need to ask whether the information provided meets those objectives in the entity's case. • Auditors and regulators would need to apply judgement to answer this question. They would need to consider both the content and the communication effectiveness of information disclosed in the financial statements. If the information provided is insufficient to meet the objectives, auditors and regulators would have a basis on which to challenge entities. • Even if an entity provides the items of information specified in a Standard, it would still be necessary for auditors and regulators to assess whether each disclosure objective has been satisfied. Consequently, a checklist approach would not be sufficient to assess compliance. • Immaterial information would not help auditors and regulators to conclude that an entity has complied with objective-based disclosure requirements. Consequently, an entity would have no incentive to include immaterial information to satisfy auditors and regulators.

The likely effects on the quality of financial reporting

BC192 This section summarises the likely effects of disclosure requirements developed using the proposed Guidance on the:

(a) relevance of information in the financial statements (paragraph BC194); and

(b) comparability of information in the financial statements (paragraphs BC195–BC200).

BC193 The likely effects specific to the proposed amendments to IFRS 13 and IAS 19 are described in paragraphs BC214–BC216.

The likely effects on the relevance of information in the financial statements

BC194 The Board expects application of disclosure requirements developed using the proposed Guidance to result in entities providing more relevant information and less irrelevant information in the financial statements because:

(a) specific disclosure objectives in IFRS Standards would help entities to understand what information is relevant to users of financial statements, and why. This understanding would provide a better basis for entities to make more effective judgements about which information to disclose in the financial statements, and which information to exclude.

(b) objective-based disclosure requirements would force entities, auditors and regulators to apply judgement in considering not just whether information has been disclosed, but whether that information meets the user needs described in the objectives.

(c) disclosure of immaterial information could not be regarded as helping an entity to achieve compliance with objective-based disclosure requirements. The disclosure of immaterial information could also obscure material information needed to meet overall and specific disclosure objectives.

(d) overall disclosure objectives in individual IFRS Standards would require an entity to consider whether the set of information it provides to meet the disclosure requirements in a Standard is sufficient to meet the overall user needs described in the objectives. Consequently, the proposals may require entities to disclose material, entity-specific information, even if that information is not captured by a specific disclosure objective in IFRS Standards.

The likely effects on the comparability of information in the financial statements

BC195 Throughout the project, users of financial statements have highlighted the importance of both relevant, entity-specific information and comparable information. The Board recognises that, at times, there will be a trade-off between these two important user needs.

BC196 The Board observed that the approaches of different users affect the trade-off between entity-specific information and comparable information. For example, users of financial statements who rely on data aggregation software or otherwise analyse high volumes of financial statements may often find it helpful for entities to disclose near identical sets of information. On the other hand, users who are interrogating a particular area of the financial statements in depth—such as a defined benefit obligation—are likely to prioritise entity-specific information.

BC197 The Board expects that, at times, application of disclosure requirements developed using the proposed Guidance would result in fewer instances of comparable information between entities. The Board expects this to occur when:

(a) an entity had previously provided immaterial information in its financial statements.

(b) entities are not comparable—for example, useful information for a financial entity would be different from useful information for a retailer. In such cases, the approach in the proposed Guidance is unlikely to result in such entities disclosing directly comparable information in many of the notes.

(c) different entities make different judgements about how to satisfy a disclosure objective. For example, individual circumstances might mean that different items of information would more effectively satisfy the same specific disclosure objective for two different entities (for example, see proposed Illustrative Examples 2–4 of IAS 19).

BC198 In addition, because of the less prescriptive disclosure requirements that would result from use of the proposed Guidance, entities with similar circumstances could make different judgements about the information they believe meets the disclosure objectives. However, uniform information and comparable information are not the same thing.[6] Although the information provided by two entities might look different, the content of that information should be comparable in all material respects, provided each entity applied its judgement to meet the same disclosure objectives. When similar information is material to different entities, the Board expects application of disclosure requirements developed using the proposed Guidance to result in entities disclosing similar information. This is because of the specificity of the proposed disclosure objectives, the requirement for entities to meet each of those disclosure objectives and because all specific disclosure objectives are explicitly linked to items of information to meet those objectives. The Board expects an entity to provide only those items of information that are relevant and material in its circumstances. Including items of information in the Standard should help to achieve comparability between any entities for which similar information is relevant and material, because the Board expects it is likely that entities would be strongly guided by these items. However, the Board acknowledges that, while all entities would be required to meet the

6 Paragraph 2.27 of the *Conceptual Framework*.

same disclosure objectives, greater judgement would be required to determine the specific information to provide as a result of the approach in the proposed Guidance.

BC199 The Board also noted that application of materiality (for example, the requirements in paragraph 31 of IAS 1—see paragraph BC5 and its footnote) should already result, when appropriate, in different entities providing different sets of information. This should occur, for example, when information is material to one entity, but not to another. Nonetheless, stakeholders have informed the Board that prescriptive requirements in IFRS Standards are perceived as overriding materiality and, therefore, entities may produce identical sets of information rather than applying materiality to their disclosures. Some are of the view that this approach can give false assurance about the completeness and comparability of information provided by different entities—for example, when an entity provides a standardised set of information, a user may assume that it has provided a complete set of information with no material, entity-specific information missing. Consequently, some argue that application of disclosure requirements developed using the proposed Guidance would aid users' ability to compare material information across entities. This is because the proposals are expected to help entities to make better materiality judgements.

BC200 Overall, the Board expects application of disclosure requirements developed using the proposed Guidance would result in comparable information between entities when that information is material to both entities, and is useful information for users' analyses.

The likely costs of the proposals

BC201 Preparers of financial statements have told the Board that applying the disclosure requirements in IFRS Standards like a checklist is easier and less costly than applying judgement because:

(a) they face time pressure in preparing their financial statements; and

(b) following a mechanical process means that auditors, regulators and other stakeholders are less likely to challenge an entity's judgement.

BC202 Consequently, the Board expects that many entities would incur incremental costs on initial application of disclosure requirements developed using the proposed Guidance. Entities are likely to incur the most significant costs in the first year. These costs would relate primarily to the behavioural changes that disclosure requirements developed using the proposed Guidance would require (see paragraphs BC188–BC191)—in particular, the emphasis on applying judgement based on the needs of users of financial statements rather than applying disclosure requirements like a checklist. Incremental costs incurred would include:

(a) the need for increased involvement by senior management—applying disclosure requirements like a checklist can be outsourced or delegated, whereas entity-specific judgements would often require the input of senior management; and

(b) increased audit costs relating to the application of judgement.

BC203 After initial application, entities would need to continue applying judgement to determine what information to disclose, and the most effective way to communicate that information. For example, an entity could not simply repeat prior period disclosures, but would instead need to consider whether the information provided continues to be effective in meeting the needs of users of financial statements based on current circumstances.

BC204 However, the Board expects the costs of application would fall in subsequent years as the behavioural changes brought about by the proposals become more familiar to entities. This expectation is supported by feedback from entities included in the Board's 2017 Better Communication Case Studies. Those entities informed the Board that the most significant costs of improving the communication in their financial statements occurred in the first year.

BC205 The Board also expects disclosure requirements developed using the proposed Guidance would help reduce the burden of preparing some financial statement disclosures on an ongoing basis. Such disclosure requirements would help entities to eliminate irrelevant information from the financial statements. In addition, information that is relevant to users may often be similar to information that management monitors and uses internally. Therefore, entities may sometimes be able to use information that is internally reported to meet disclosure requirements developed using the proposed Guidance.

BC206 For a few entities, application of disclosure requirements developed using the proposed Guidance could be very similar to their current process for determining the information to disclose in the financial statements. This is likely to apply to entities that have already taken steps to improve the communication in their financial statements—such as those entities included in the Board's 2017 Better Communication Case Studies. For these entities, the costs of applying disclosure requirements developed using the proposed Guidance may be limited.

The likely effects on electronic reporting

BC207 As described in paragraph BC194, the Board expects application of the objective-based approach in the proposed Guidance would result in more relevant, entity-specific information disclosed in the financial statements. Users of financial statements require data that is relevant and entity-specific—including when that data is consumed electronically. At the same time, the Board is aware that a more structured approach to financial statements can be helpful to electronic reporting. If an entity provides entity-specific information that is not explicitly included in IFRS Standards, it will typically tag that information using extensions, or not tag the information at all. Such information is more difficult to extract and analyse for users that use electronic data directly.

BC208 Disclosure requirements developed using the proposed Guidance could increase the need for entities that report electronically to create their own extensions. Therefore, the Board considered how such disclosure requirements might be applied in an electronic reporting environment and the expected effects of that application.

BC209 The Board expects that an IFRS Taxonomy element would be created for each overall and specific disclosure objective. An entity would be able to use that element to identify all information disclosed to satisfy a particular disclosure objective (block tagging), thus allowing users of financial statements to extract all the information related to that disclosure objective.

BC210 The Board also expects that IFRS Taxonomy elements would be created for each item of information to meet a specific disclosure objective that is included in IFRS Standards. Consequently, entities disclosing those items of information would not need to create their own extensions and users of financial statements would be able to easily identify and compare similar items of information.

BC211 Furthermore, when applying the proposed Guidance to develop items of information to include in IFRS Standards as examples of how to satisfy a disclosure objective, the Board would consider common reporting practice (see paragraph BC49(d))—that is, items of information that entities typically disclose but that are not currently in IFRS Standards. The Board expects this approach would help reduce diversity in reporting practices, which in turn would reduce diversity in tagging.

BC212 In the Board's view, entities are most likely to create extensions for unique or unusual material items of information needed to satisfy a specific disclosure objective. When such information is relevant to multiple entities, the Board expects the approach described in paragraphs BC27–BC49 to identify that information—for example, through stakeholder outreach or review of common reporting practice. Consequently, the Board expects disclosure requirements developed using the proposed Guidance would capture information that is relevant to multiple entities and, consequently, that relevant IFRS Taxonomy elements would be created.

The likely effects specific to the proposed amendments to IFRS 13 and IAS 19

BC213 The Board expects all of the likely effects described in paragraphs BC188–BC212 to apply to the proposed amendments to IFRS 13 and IAS 19. The paragraphs that follow summarise the additional likely effects specific to the proposed amendments to these two Standards.

The likely effects of the proposed amendments on fair value measurement disclosures

BC214 The Board expects the proposed amendments to the disclosure requirements of IFRS 13 to help entities make more effective materiality judgements when preparing their fair value measurement disclosures. Specifically, the Board expects the proposed amendments to lead entities to:

(a) eliminate detailed disclosures about immaterial fair value measurements;

(b) include material information about material fair value measurements that is not currently disclosed; and

(c) eliminate less decision-useful information about fair value measurements.

BC215 Table 6 summarises the expected effects of the proposed amendments on fair value measurement disclosures.

Table 6 Expected effects on fair value measurement disclosures

Current situation	Likely effects of the proposals on fair value measurement disclosures
Elimination of detailed disclosures about immaterial fair value measurements	
• Entities are required to disclose detailed information about fair value measurements categorised within Level 3 of the fair value hierarchy. For example, entities are required to disclose sensitivity of the fair value measurement to changes in unobservable inputs. • Financial entities often categorise a significant majority of their fair value measurements within Level 2 of the fair value hierarchy. Level 3 fair value measurements are therefore often immaterial to those financial statements. Users of financial statements do not use detailed disclosures about immaterial fair value measurements in their analyses. • Preparers of financial statements and users often consider some or all aspects of the fair value measurement disclosures of non-financial entities to be immaterial.	• Entities would no longer have a Level 3 'checklist' to apply. Instead, the proposals would require entities to apply judgement to determine which fair value measurements are material to users of financial statements and what information to disclose about those measurements. • If an entity currently discloses detailed information about Level 3 fair value measurements that are not material to its financial statements, application of the proposed requirements would reduce or eliminate that information.

continued...

...continued

Current situation	Likely effects of the proposals on fair value measurement disclosures
Inclusion of material information about material fair value measurements that is not currently disclosed	
• IFRS 13 requires detailed information about fair value measurements categorised within Level 3 of the fair value hierarchy. • In practice, the three levels of the fair value hierarchy are not separated by clear bright lines. Instead, fair value measurements demonstrate a continuum of measurement quality. Financial entities often categorise a significant majority of their fair value measurements within Level 2 of the fair value hierarchy. • Information about Level 2 fair value measurements that are close to the boundary between Level 2 and Level 3 is important to users of financial statements (see paragraph BC69).	• Entities would be required to apply judgement and determine which fair value measurements are material to users of financial statements. Consequently, if an entity has material fair value measurements that are subject to measurement uncertainty but for which the entity has applied judgement and categorised within Level 2 of the fair value hierarchy (see paragraph BC69), the proposed amendments would lead to improved information about those fair value measurements.
Elimination of less useful information	
• Entities are required to disclose detailed information about valuation processes used for fair value measurements categorised within Level 3 of the fair value hierarchy. • Entities are required to disclose specific information about items that are not measured at fair value but for which fair value is disclosed.	• Entities would no longer be explicitly required to disclose detailed information about valuation processes. • Entities would no longer be explicitly required to disclose some information about items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. These items include information about any changes in valuation techniques, and the reasons for those changes.

The likely effects of the proposed amendments on employee benefit disclosures

BC216 Table 7 summarises the expected effects of the proposed amendments on employee benefit disclosures.

Table 7 Expected effects on employee benefit disclosures

Current situation	Likely effects of the proposals on employee benefit disclosures
Amounts in the primary financial statements relating to defined benefit plans	
• Entities are required to disclose information that identifies and explains the amounts in their financial statements arising from their defined benefit plans. • However, in practice obtaining a simple understanding of the effect of defined benefit plans on the primary financial statements is often difficult or time-consuming for users of financial statements.	• All entities with defined benefit plans would be required to present a quantitative 'executive summary' of their plans, thus improving communication effectiveness. • The proposals would help users of financial statements to more easily understand the amounts in the primary financial statements and how they link to any detailed information about defined benefit plans.
Nature of, and risks associated with, defined benefit plans	
• Entities are required to disclose many items of information about the characteristics of their defined benefit plans and the risks to which those plans expose the entity. • In practice, entities often provide voluminous disclosures, containing information that users of financial statements describe as boilerplate. It is often difficult for users to identify material information within these disclosures.	• Any entity with defined benefit plans would be required to apply judgement to determine the information that is most useful to users of financial statements in the entity's particular case, thus focusing its disclosures on material information. • The absence of a 'checklist' of required specific pieces of information would help entities eliminate immaterial information.

continued...

...continued

Current situation	Likely effects of the proposals on employee benefit disclosures
Expected future cash flows relating to defined benefit plans	
• Entities are required to disclose a description of any funding arrangements and funding policies that affect future contributions and the expected future contributions to the plan for the next annual reporting period. • Some entities choose to disclose additional voluntary information, such as expected contributions into the plan beyond the next year. • The most frequent questions from users of financial statements about entities' defined benefit plans relate to their future cash flow effects. For users, this is the most relevant information about defined benefit plans and they often do not get the information they need.	• Any entity with defined benefit plans would be required to disclose information that enables users of financial statements to understand the expected effects of the defined benefit obligation recognised at the end of the reporting period on the entity's future cash flows. • Thus, the proposals would result in information that is more relevant in the financial statements.
Future payments to members of defined benefit plans that are closed to new members	
• Entities are required to disclose information about the maturity profile of the defined benefit obligation. Such information includes the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.	• Any entity with defined benefit plans would be required to focus its disclosures on communicating how long defined benefit plans that are closed to new members will continue to affect the entity. • The proposals would result in the reduction of some information that is less useful for users of financial statements. For example, information about the distribution of the timing of benefit payments, and about payments to members of defined benefit plans that remain open to new members.

continued...

...continued

Current situation	Likely effects of the proposals on employee benefit disclosures
Measurement uncertainties associated with the defined benefit obligation	
• Entities are required to disclose the significant assumptions used, along with a sensitivity analysis for each significant actuarial assumption. Entities are also required to disclose the methods and assumptions used in preparing the sensitivity analyses, including changes from the previous period and the reasons for such changes.	• The proposals would reduce detailed assumption-by-assumption sensitivity analysis, which users of financial statements do not find useful. • Instead, entities would need to focus disclosures on information that communicates the overall level of measurement uncertainty associated with the determination of the defined benefit obligation.
Reasons for changes in the amounts presented in the statement of financial position relating to defined benefit plans	
• Entities are required to disclose a reconciliation from the opening balance to the closing balance for the net defined benefit liability or asset and for reimbursement rights.	• The proposals would not significantly change how entities disclose information about reasons for changes in the net defined benefit liability or asset and for reimbursement rights. • The proposals focus on significant reasons for changes to help entities improve the communication effectiveness of the disclosed information and eliminate any immaterial information.
Defined contribution plans	
• Entities are required to disclose the amount recognised as an expense for defined contribution plans.	• The proposals would not significantly change disclosed information about defined contribution plans.

continued...

...continued

Current situation	Likely effects of the proposals on employee benefit disclosures
Multi-employer plans and defined benefit plans that share risks between entities under common control	
• Entities are required to disclose many specific items of information when they account for a multi-employer plan as if it were a defined contribution plan or a defined benefit plan that shares risks between entities under common control by recognising a cost equal to their contribution payable for the period.	• The proposals would require an entity to focus its disclosure on the material risks to which these plans expose the entity—in particular, risks that are unique to these types of plans. • The proposals would also result in the elimination of some information that is less useful for users of financial statements. For example, entities accounting for a defined benefit plan that shares risks between entities under common control by recognising a cost equal to their contribution payable for the period would no longer be required to disclose the detailed information required for defined benefit plans.
Short-term employee benefits, other long-term employee benefits and termination benefits	
• IAS 19 does not require entities to provide specific disclosures about these benefits.	• The proposals would require entities to disclose material information, if any, about these benefits.

The likely costs of the proposed amendments

BC217 The Board expects that most of the information needed to comply with the proposed amendments to IFRS 13 and IAS 19 will already be held by entities. In many cases, this is because similar information is already required to comply with the current disclosure requirements of those Standards.

BC218 The proposals include a few specific disclosure objectives that will require some entities to disclose new information that is not currently provided, thus introducing some additional costs for those entities. Most notably this includes information about:

(a) material fair value measurements that are close to the boundary between Level 2 and Level 3 of the fair value hierarchy, for which an entity has applied judgement and categorised within Level 2 (see paragraph BC69).

(b) the expected future cash flow effects of defined benefit obligations (paragraph 147J of the proposed amendments to IAS 19). Preparers of financial statements have informed the Board that information to meet this objective will not be unduly costly to provide and is generally already maintained internally by entities. This is because such information is already used by management and reported to plan trustees.

BC219 Because much of the information needed to comply with most of the proposed amendments is already held by entities, the Board does not expect entities to incur significant costs adjusting their accounting systems to gather such information. Furthermore, the proposed amendments affect disclosure requirements and do not affect recognition and measurement. Consequently, the proposed amendments are likely to have fewer system implications than projects that affect recognition and measurement.

BC220 The Board also expects the proposed amendments would reduce some costs of preparation for some entities by helping them to eliminate irrelevant information from the financial statements. For example, the proposed amendments to IFRS 13 may help reduce costs for non-financial institutions or entities that currently disclose very detailed information about immaterial Level 3 fair value measurements, while the proposed amendments to IAS 19 may help reduce costs for those entities that currently disclose detailed, assumption-by-assumption sensitivity analyses.

Alternative view of Mr Martin Edelmann, Mr Zachary Gast and Ms Suzanne Lloyd on *Disclosure Requirements in IFRS Standards—A Pilot Approach*

AV1 Mr Edelmann, Mr Gast and Ms Lloyd voted against publication of this Exposure Draft. They are concerned that applying the proposed Guidance will not help to solve the disclosure problem. In particular, in their view, developing objective-based disclosure requirements in IFRS Standards without requiring disclosure of specific items will:

(a) increase enforcement challenges;

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

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

AV2 Mr Edelmann, Mr Gast and Ms Lloyd agree with the Board's objective of improving the effectiveness of disclosures provided in financial statements prepared in accordance with IFRS Standards. They also agree 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.

AV3 However, these Board members note that preparers can provide effective disclosures in financial statements using the current requirements in IFRS Standards. The Board in fact highlighted examples of good practice in its 2017 Better Communication Case Studies. Therefore, these Board members believe that the primary source of the disclosure problem is the poor application of materiality rather than the perceived prescriptive nature of current disclosure requirements.

AV4 Mr Edelmann, Mr Gast and Ms Lloyd agree that developing disclosure objectives that clearly articulate the information needs that disclosures should satisfy can assist in addressing the disclosure problem. They agree that the Board could improve disclosure requirements by adding such objectives to IFRS Standards.

AV5 However, the approach in the proposed Guidance not only adds disclosure objectives but increases the emphasis on the requirement to meet a disclosure objective. In applying that approach, rather than specifying particular items that are required to be disclosed to meet an objective, in most cases, only a non-mandatory list of items that may enable a preparer to meet the disclosure objective would be provided.

Enforcement challenges

AV6 The disclosure problem is multi-faceted. One aspect of the problem is the failure to provide enough relevant information. Enforceability is particularly important to address this aspect of the disclosure problem. The proposed Guidance would change the onus on preparers from disclosing specific items to satisfying objectives linked to meeting the information needs of users of financial statements. Mr Edelmann, Mr Gast and Ms Lloyd are concerned about the difficulty of enforcing such objective-based disclosure requirements.

AV7 Some Standards already include disclosure objectives; however, these objectives provide context for more specific required disclosures. The proposed Guidance would move the focus of disclosure requirements, and thus enforcement of those requirements, to meeting a disclosure objective and satisfying the associated information needs of users of financial statements. These Board members are concerned that such a change in emphasis would expose preparers to second guessing and make review and enforcement more difficult for auditors and regulators. Preparers will need to explain how they satisfied the stated information needs of users. Auditors and regulators can currently monitor whether a preparer has disclosed specific items required by a Standard that are material for the preparer's financial statements. However, under the proposed Guidance, auditors and regulators would have to assess whether a preparer has met the disclosure objectives and base their enforcement on that assessment. The examples of information that could be provided to meet the objective will typically be non-mandatory. Difficulty of enforcement may inadvertently lead to the reduction of relevant information in financial statements.

AV8 Furthermore, Mr Edelmann, Mr Gast and Ms Lloyd are concerned that it will be difficult for regulators to fully assess, through the exposure draft process, how enforceable the disclosure requirements developed applying the proposed Guidance, including the proposed amendments to IFRS 13 and IAS 19, will be. In their view, the resulting uncertainty about the core issue of enforceability would make it difficult for the Board to determine whether the proposals are sufficiently robust to be further developed.

Preparer burden

AV9 Mr Edelmann, Mr Gast and Ms Lloyd are also concerned that the change in emphasis to requiring the satisfaction of disclosure objectives and removing the requirement to disclose specific items is likely to be more difficult for preparers to apply.

AV10 The proposed Guidance would require preparers to determine the information that would meet the needs of users of financial statements, whose perspectives differ from their own, and to determine and justify that they have met the stated objectives. Good application of this approach will require significant judgement by preparers. It will be necessary for preparers to apply the concept of materiality well in order for the disclosure objectives to result in more relevant and less irrelevant information being provided in the financial statements and to avoid the new examples being used as a checklist even when they are non-mandatory.

AV11 The Board has been told that poor application of materiality contributes to the disclosure problem. Mr Edelmann, Mr Gast and Ms Lloyd are concerned that by increasing the reliance on materiality judgements and requiring preparers to judge whether they have met the information needs of users of financial statements, the Board may worsen, rather than help solve, the disclosure problem. Enforcement challenges could result in preparers failing to provide relevant information. Furthermore, enforcement challenges, combined with the poor application of materiality, could result in the non-mandatory disclosures being used as a checklist so that financial statements contain too much irrelevant information and not enough relevant information.

AV12 Mr Edelmann, Mr Gast and Ms Lloyd agree that it is important for the Board to spend more time early in the standard-setting process to understand and articulate the information needs of users of financial statements. Such an approach would provide a better basis for the Board to determine what disclosure is necessary and a context for preparers to make better materiality judgements. However, Mr Edelmann, Mr Gast and Ms Lloyd believe that the Board should use feedback about user information needs to develop specific disclosure requirements and to provide an objective that gives context for the application of judgement by preparers in determining the appropriate disclosures, rather than setting objective-based disclosure requirements that preparers could meet by providing diverse forms of information.

Comparability of information

AV13 The Board has developed proposed amendments to the disclosure requirements of IFRS 13 and IAS 19 applying the approach in the proposed Guidance. The resulting proposed disclosure requirements are, therefore, less prescriptive than those currently set out in IFRS 13 and IAS 19. Applying the proposed disclosure requirements, different preparers are able to provide different types of information to meet the disclosure objectives.

AV14 Mr Edelmann, Mr Gast and Ms Lloyd are concerned that such an outcome could impair comparability for users of financial statements compared with an approach in which the Board determines the specific items of information that would meet user needs and requires all preparers to provide those items of information when they are material. Ensuring that consistent information is provided can help achieve comparability between preparers, which enhances the usefulness of information for users. If less consistent information is provided, this may also increase costs for users by necessitating additional efforts to customise screening and analysis.

IFRS®

IAS®

International Financial Reporting Standards®

IFRIC®

IFRS Foundation®

SIC®

IFRS®

IASB®

The International Accounting Standards Board is the independent standard-setting body of the IFRS Foundation

Columbus Building | 7 Westferry Circus | Canary Wharf
London E14 4HD | United Kingdom
Telephone: +44 (0)20 7246 6410
Email: info@ifrs.org | Web: www.ifrs.org

Publications Department
Telephone: +44 (0)20 7332 2730
Email: publications@ifrs.org

MIX
Board from responsible sources
FSC® C020438
www.fsc.org

SET ISBN 978-1-914113-15-4
9 781914 113154
PART B ISBN 978-1-914113-17-8

IAS®