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## **Disclosure Initiative-Targeted Standards-level Review of Disclosures**

### **Draft Guidance for the IASB**

#### **Objective**

- 1 The objective of the paper is to provide an overview of the draft Guidance to be used by the IASB when developing and drafting disclosure requirements (the 'draft Guidance').
- 2 A link to a draft version of the guidance discussed in public in September 2018 is included [here](#).
- 3 A summary of EFRAG discussions held for this project in previous meetings is reported starting from paragraph 19 below.
- 4 The approach detailed below is expected to be explained in the Basis for Conclusions to the exposure drafts proposing amendments to IAS 19 and IFRS13. Although the drafting guidance itself is outside of the scope of the future amendments that will be subject to EFRAG's endorsement advice, a question on the relevance of the new drafting approach will be included in the EDs public consultation. EFRAG will need to decide whether it wants to address the question in its comment letters in response to the ED.

#### **Step 1 - How the IASB will use disclosure objectives**

- 5 At its May 2018 meeting, the IASB decided that the draft Guidance will:
  - (a) Explicitly state the objective(s) of each disclosure requirement and clearly link each requirement with the related objective(s).
  - (b) Use high-level, catch-all disclosure objectives within individual Standards to prompt entities preparing financial statements to consider as a whole the disclosure relating to a topic and whether the information provided meets users' information needs for that topic
- 6 As a consequence, three types of disclosure objectives will now be identified
  - (a) **Specific disclosure** objectives in individual standards —prompt entities to apply judgement as to whether each piece of information is material to their financial statements and whether the information provided meets specific user information needs.
  - (b) **High-level, catch-all disclosure objectives in individual Standards**—prompt entities to consider disclosures relating to a topic in their financial statements and whether the information provided meets overall user information needs for that topic.
  - (c) **Overarching objectives in the Conceptual Framework for Financial Reporting and IAS 1 Presentation of Financial Statements**—prompt entities to consider as a whole all the disclosures in their financial statements

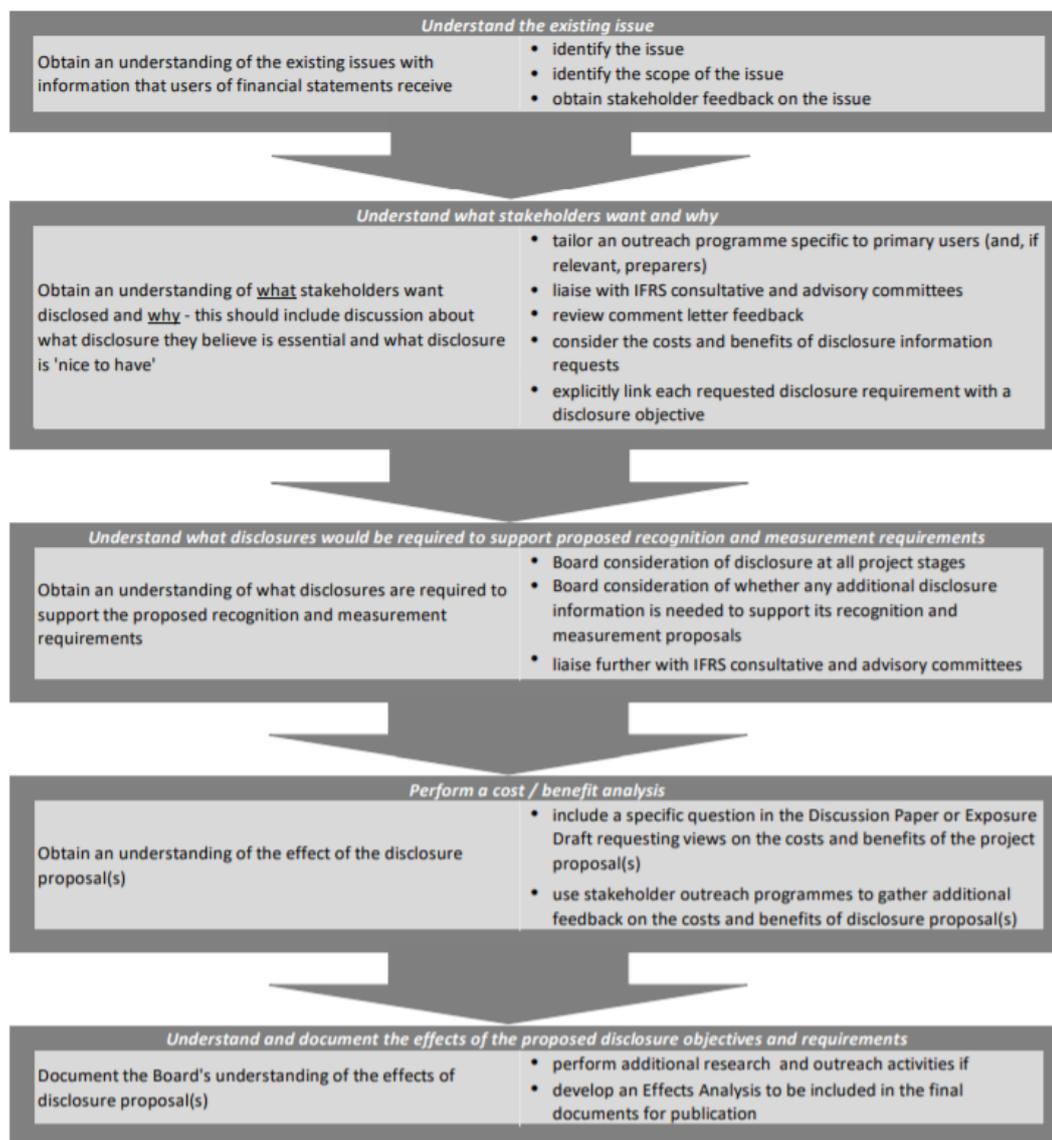
and decide whether they meet user information needs and the overall objective of general purpose financial reporting and general purpose financial statements. These objectives already exist in the Conceptual Framework and IAS 1 and are unaffected by the proposed framework.

- 7 The purpose of including high-level objectives within IFRS Standards is to:
- (a) Act as a 'catch-all' by prompting preparers to consider whether the overall information provided by complying with the specific disclosure objectives and requirements of a Standard meets overall user information needs. For example, high level objectives might lead an entity to provide additional, entity specific information that is not directly captured by a particular disclosure requirement.
  - (b) Provide a clear link to the overarching objectives of general-purpose financial reporting and financial statements—highlighting the relationship between disclosure objectives within IFRS Standards and the overarching objectives of general-purpose financial reporting and financial statements within the Conceptual Framework and IAS 1.

## **Step 2 - How the Board will develop the content of disclosure objectives and requirements**

- 8 At its June 2018 meeting, the IASB tentatively decided that, when developing disclosure objectives and requirements:
- (a) A member of the IFRS Taxonomy team be assigned to each of the IASB's active projects in an advisory capacity.
  - (b) The IASB will use a focused methodology to develop the content of disclosure objectives and requirements including the following:
    - (i) Understand the existing issue(s).
    - (ii) Understand what information stakeholders want and why.
    - (iii) Understand what disclosures would be required to support proposed recognition and measurement requirements.
    - (iv) Perform a cost-benefit analysis.
    - (v) Understand and document the effects of the proposed disclosure objectives and requirements.
- 9 The flowchart below is a high-level representation of the methodology which is not intended to be fixed or linear but rather:
- (a) **Iterative**—it will be used as a foundation to be built upon using feedback from stakeholders as well as the experience of project teams.
  - (b) **Flexible**—the sequence and volume of suggested activities can be adjusted to meet the needs of a particular project.

## Targeted Standards-level Review of Disclosures – Issues paper



Source: IASB Staff paper.

- 10 Each project team will be responsible for assessing the relevance of the activities suggested in the methodology and assessing how many activities, such as stakeholder outreach, are required. For example, more stakeholder outreach may be required when the IASB develops a new Standard than when it develops a narrow-scope amendment.
- 11 The level of involvement of the IFRS Taxonomy team advisor (will vary depending on the project. The objective of working with a Taxonomy 'advisor' is to help identify:
  - (a) Any issues with current disclosure objectives and requirements. For example, any common application challenges or inconsistencies, and any duplication or contradiction between requirements in IFRS Standards.
  - (b) Any potential issues with the disclosure proposal(s).
  - (c) Whether disclosure proposal(s) are 'technology neutral'—i.e. whether the proposal(s) can be applied effectively in both an electronic reporting format and a paper-based format.
  - (d) The interaction of the disclosure proposal(s) with common reporting practice, IFRS Standards and accompanying materials such as implementation guidance and illustrative examples.

- (e) Any potential issues with the disclosure proposal(s) to be incorporated into the IFRS Taxonomy. For example, the advisor might help teams understand whether taxonomy elements could be easily created using the proposals' wording.

### **Step 3 - How the IASB will draft disclosure objectives and requirements**

- 12 At its July 2018 meeting the IASB considered how to draft disclosure objectives and requirements in a way that most effectively communicates their intent—ie that disclosure objectives and requirements are communicated in a way that allows entities to effectively exercise judgement about which disclosure objectives and requirements are material in their case and should be disclosed.
- 13 The IASB decided that effective communication can be addressed through three areas:
  - (a) The use of language.
  - (b) Formatting and presentation of disclosure objectives and requirements within IFRS Standards.
  - (c) Leveraging requirements and guidance across IFRS Standards and other IFRS publications.

#### *Use of language*

- 14 Balance needs to be achieved between language that is prescriptive enough to encourage comparability, but not so prescriptive that it discourages the use of judgement. To do so, the IASB will use prescriptive language to require entities to comply with disclosure objectives in the Standards (e.g. 'shall'); and using less prescriptive language when referring to specific items of information for disclosure (e.g. 'shall consider' or 'will normally disclose').
- 15 More precisely, the prescriptive 'shall' language is used to articulate a particular piece of information that is always essential to satisfy a specific disclosure objective. Otherwise, the less prescriptive language 'while not mandatory, the following may enable an entity to meet this objective ...' is used.
- 16 Inconsistencies in language, within or across Standards can lead to confusion about requirements and to inconsistent application of terms and concepts. To help minimise inconsistencies in language the IASB should:
  - (a) Consider defining terms and concepts introduced for the first time in a disclosure section of an IFRS Standard.
  - (b) Consider how a term or concept is defined when translated to languages other than English.

#### *Formatting and presentation of disclosure objectives and requirements in IFRS Standards*

- 17 Formatting and presentation can help highlight why a specific disclosure requirement will be useful to primary users. For example:
  - (a) **Placement and presentation of high-level, catch-all disclosure objectives.** Such objectives could be placed at the end of the relevant disclosure section in an IFRS Standard as they are intended to prompt consideration of whether overall disclosures are sufficient after complying with all of the specific disclosure objectives in a Standard.
  - (b) **Use of bold type text formatting within the disclosure section of an IFRS Standard.** For instance, specific disclosure objectives in a Standard could be presented in bold type. This would be consistent with IFRS Standards bound volumes which states that: '*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.

- (c) **Presentation of disclosure objectives and requirements:** Effective disclosure sections should link specific items of information to specific. Organise disclosure sections in the Standards based on similar information needs that disclosure objectives and requirements are intended to satisfy. In many cases, this approach may result in disclosure sections that are organised based on groups of similar or related specific disclosure objectives. In other cases, it might lead to multiple short lists of information that an entity should consider disclosing to comply with a disclosure objective.
- 18 Leveraging requirements and guidance across IFRS Standards and other IFRS publications will support the IASB in:
- (a) Minimising duplication in IFRS Standards and other IFRS publications.
  - (b) Promoting consistent drafting of disclosure objectives and requirements.
  - (c) Ensuring the relationship between individual disclosure objectives and requirements in the Standards and the concept of materiality is consistent and clear.

*Summary of previous discussions by EFRAG*

- 19 EFRAG TEG and EFRAG CFSS received updates on the project:
- (a) In March 2019, (Joint EFRAG TEG and EFRAG CFSS – see [meeting agenda papers](#));
  - (b) In July 2018 (Joint EFRAG TEG and EFRAG CFSS – see [meeting agenda paper](#)); and
  - (c) In December 2018 (Joint EFRAG Board and EFRAG TEG – see [meeting agenda papers](#))
- 20 **In March 2019**, EFRAG TEG and EFRAG CFSS considered the feedback received by the IASB from its outreach with users. Members appreciated the IASB’s approach to reach out to users to understand their needs. However, they suggested that an extensive outreach to a **broader set of stakeholders other than users** would be needed. Members noted that an analysis of the differences between existing and suggested disclosure requirements would help them to better understand the impact of the changes on different constituents. Some members suggested that the project should distinguish between financial institutions and other entities.
- 21 Finally, EFRAG TEG and EFRAG CFSS suggested a more holistic approach for sensitivity analysis by looking first at the interactions with the requirements in IAS 1 Presentation of Financial Statements, and then at the guidance in the specific IFRS Standards.
- 22 **In July 2018**, EFRAG TEG and EFRAG CFSS discussed the IASB guidance for developing disclosure objectives and requirements and which IFRS Standard(s) should be selected for testing that guidance. Members generally considered that the approach retained by the IASB (developing drafting guidance and testing it in an iterative process) was sensible. In particular, it was paramount to understand and explain why a disclosure is useful and how the primary users would use the resulting information.
- 23 Members noted that reaching out to stakeholders was important but could be a complex and costly process. It was therefore essential to carefully select the targeted IFRS Standards and identify the type of stakeholders the IASB would reach out to. The following IFRS Standards were identified as potential candidates for testing: IFRS 13 Fair Value Measurements, IFRS 7 Financial Instruments:

Disclosures; IFRS 3 Business Combinations, IAS 12 Income Tax and IAS 19 Employee Benefits.

- 24 **In December 2018**, the EFRAG Board and EFRAG TEG received, at their joint meeting, an update on the project and discussed EFRAG's future activities. Members generally considered in particular that the EFRAG Secretariat should continue actively monitoring the project but not conduct any other activities by anticipation. Input would be provided to the IASB through the 'normal channels' and in due time to help with the development, testing and application of the guidance.
- 25 Members also considered it important to consider the interactions and consistency of the decisions made on this project with other IASB's ongoing projects (including Primary Financial Statements) where new or additional disclosures are being contemplated.
- 26 *EFRAG discussions in previous steps of the IASB projects (before the development of the guidance under discussion)*
- 27 Additionally, **in its 2017 comment letter** in response to the IASB's Discussion Paper *Principles of Disclosures*, EFRAG:
- (a) Encouraged the IASB to give priority, in the next steps of its project, to a comprehensive review of standards-level requirements. EFRAG regarded this standards-level review as a critical remaining element of Disclosure Initiative and considers that its objective should be to develop a clear, effective, coherent and comprehensive but concise package of disclosure requirements. The review should, in particular, aim to identify and remove any disclosure requirements that are disproportionate or redundant.
  - (b) Observed that more recent IFRS Standards (from IFRS 2 Share-based Payments onward) have included an overall objective for their disclosure requirements. However, these objectives have been developed in isolation, as part of the discussions on each standard, and the relationships between the disclosure requirements in different standards (including the links between IAS 1 and other IFRS Standards) have not always been considered.
  - (c) Supported the further exploration of how to achieve a more holistic and unified approach in developing disclosure objectives; for instance by using as a basis a single central set of disclosure objectives; supplemented by more specific objectives developed at the level of each standard.
  - (d) Cautioned that, if disclosure objectives are expressed too generically, they are not helpful in determining the specific information to disclose in order to meet each objective.
  - (e) Noted, however that in order to develop centralised disclosure objectives for the notes, the IASB should first take a step back and articulate more clearly the boundaries of the notes.
  - (f) Supported further analysis of how disclosure requirements could be focused on the entity's activities and business model as this has the potential to provide improved information for users over the present practice of focusing on information about an entity's assets, liabilities, equity, income and expenses.

**Questions for EFRAG TEG**

- 28 Do EFRAG TEG members have questions or comments on the above update the IASB's draft Guidance?
- 29 Do EFRAG TEG identify areas of improvement to the way disclosure requirements are being developed that are not addressed in the draft Guidance?
- 30 Do EFRAG TEG agree that EFRAG should respond to the question(s) in the forthcoming consultation about the IASB's draft Guidance?