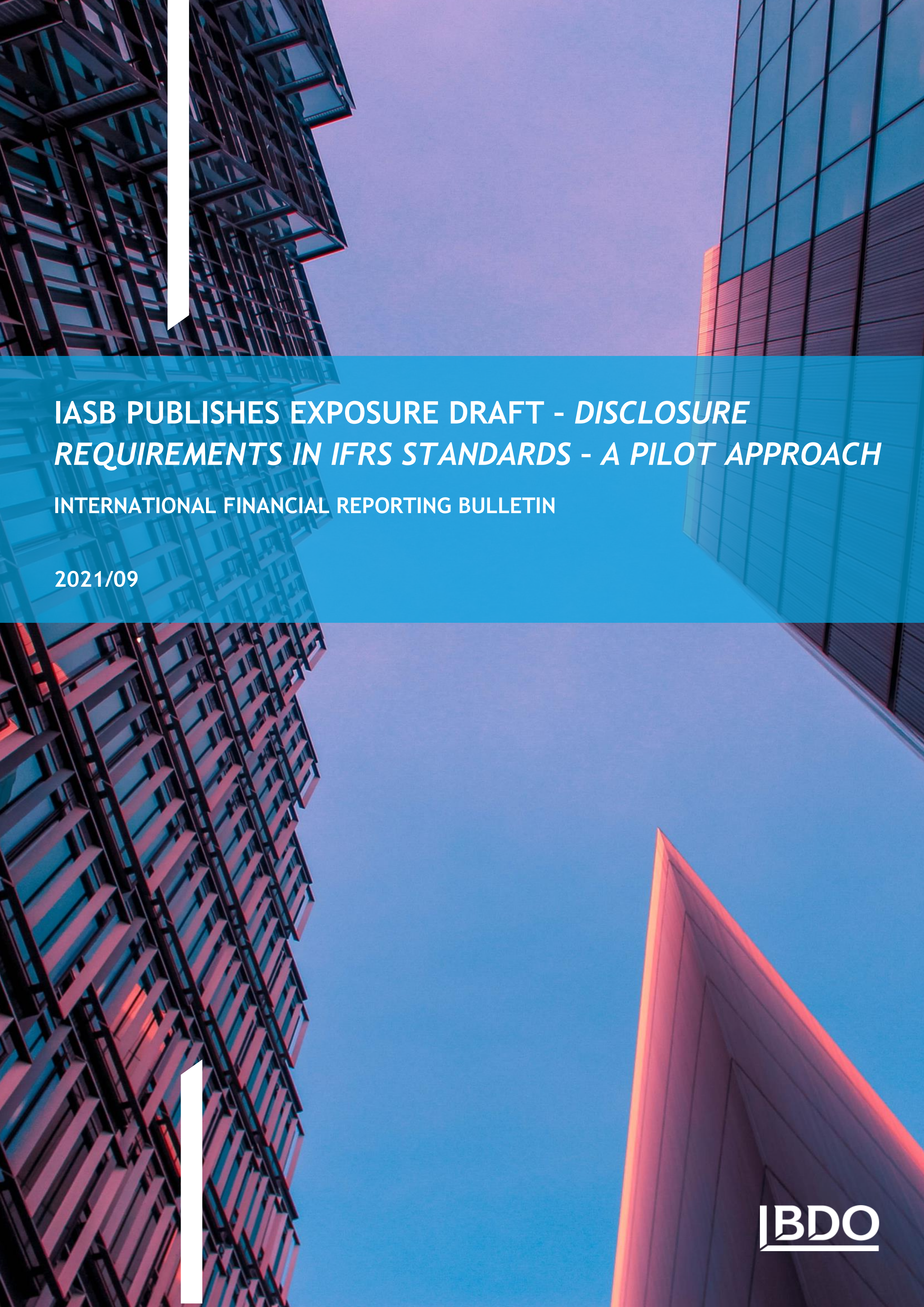

IASB PUBLISHES EXPOSURE DRAFT – *DISCLOSURE REQUIREMENTS IN IFRS STANDARDS – A PILOT APPROACH*

INTERNATIONAL FINANCIAL REPORTING BULLETIN

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BDO

BACKGROUND

STATUS
Exposure Draft

ACCOUNTING IMPACT
The proposed approach to disclosure requirements would significantly change the way entities provide disclosures in the financial statements. The proposed approach would require entities to apply judgement to decide what to disclose rather than comply with disclosure requirements like a checklist.

The disclosure problem

Based on the feedback received from stakeholders, the International Accounting Standards Board (IASB or the Board) identified three main concerns about the usefulness of the information disclosed in the financial statements (collectively referred to as 'the disclosure problem'):

- Not enough relevant information;
- Too much irrelevant information; and
- Ineffective communication of the information provided.

In order to evaluate possible approaches to address the disclosure problem, in March 2017, the IASB issued the Discussion Paper *Disclosure Initiative—Principles of Disclosure* (Discussion Paper).

Many respondents to the Discussion Paper highlighted that the preparers of financial statements, auditors and regulators follow a 'checklist approach' to ensure compliance with disclosure requirements, without applying judgement. It was the view of many respondents that the Board's approach to developing and drafting disclosure requirements contributes to the disclosure problem and the checklist approach, mainly in the following ways:

- Use of prescriptive language such as 'shall disclose' or 'as a minimum', resulting in entities disclosing immaterial information without applying materiality judgements;
- High volume of prescriptive disclosure requirements limiting the time available to apply judgement;
- Lack of specific disclosure objectives preventing entities from understanding how users of financial statements will use the information disclosed and from applying materiality judgements effectively;
- Lack of clarity on interaction of disclosure objectives and prescriptive requirements; and
- Inconsistent drafting of disclosure requirements.

The proposed solution

In response to the feedback received and the Board's research, the Board decided to improve the way it develops and drafts the disclosure requirements in IFRS standards to effectively address the disclosure problem. To meet this objective, the Board decided to develop new guidance for itself when developing and drafting disclosure requirements in IFRS standards and to test the new guidance by applying it to two test Standards.

On 25 March 2021, the Board issued Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach* (the Exposure Draft) which includes:

- The proposed Guidance for the Board to use when developing and drafting disclosure requirements; and
- Proposed amendments to two test standards - IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*, where the new approach is applied to disclosure requirements.

The proposed approach would significantly change the way entities provide disclosures in the financial statements. Preparers of the financial statements would be required to apply judgement to determine the information to be disclosed to meet the disclosure objectives. Similarly, auditors and regulators would be required to apply judgement to evaluate whether the information provided meets the disclosure objective.

The Exposure Draft may be accessed here. The IASB has also released a snapshot of the proposals and a short video introducing the proposals, which may be accessed here. Comments on the Exposure Draft are requested by 21 October 2021.

PROPOSED GUIDANCE ON DISCLOSURE REQUIREMENTS

The proposed Guidance is a document for the Board that explains the new approach to be followed when developing and drafting disclosure requirements. The new approach is intended to enhance the use of judgement by the entities and result in the disclosure of more decision-useful information by requiring entities to comply with disclosure objectives rather than with prescriptive requirements.

Contents of disclosure requirements developed using the proposed Guidance

Overall disclosure objectives

- Describes overall information needs of users of financial statements within the context of an individual IFRS standard.
- Requires entities to assess whether information provided by complying with the specific disclosure objectives meets the overall information needs of users. If information provided is assessed to be insufficient, entities would be required to disclose additional information to meet information needs.

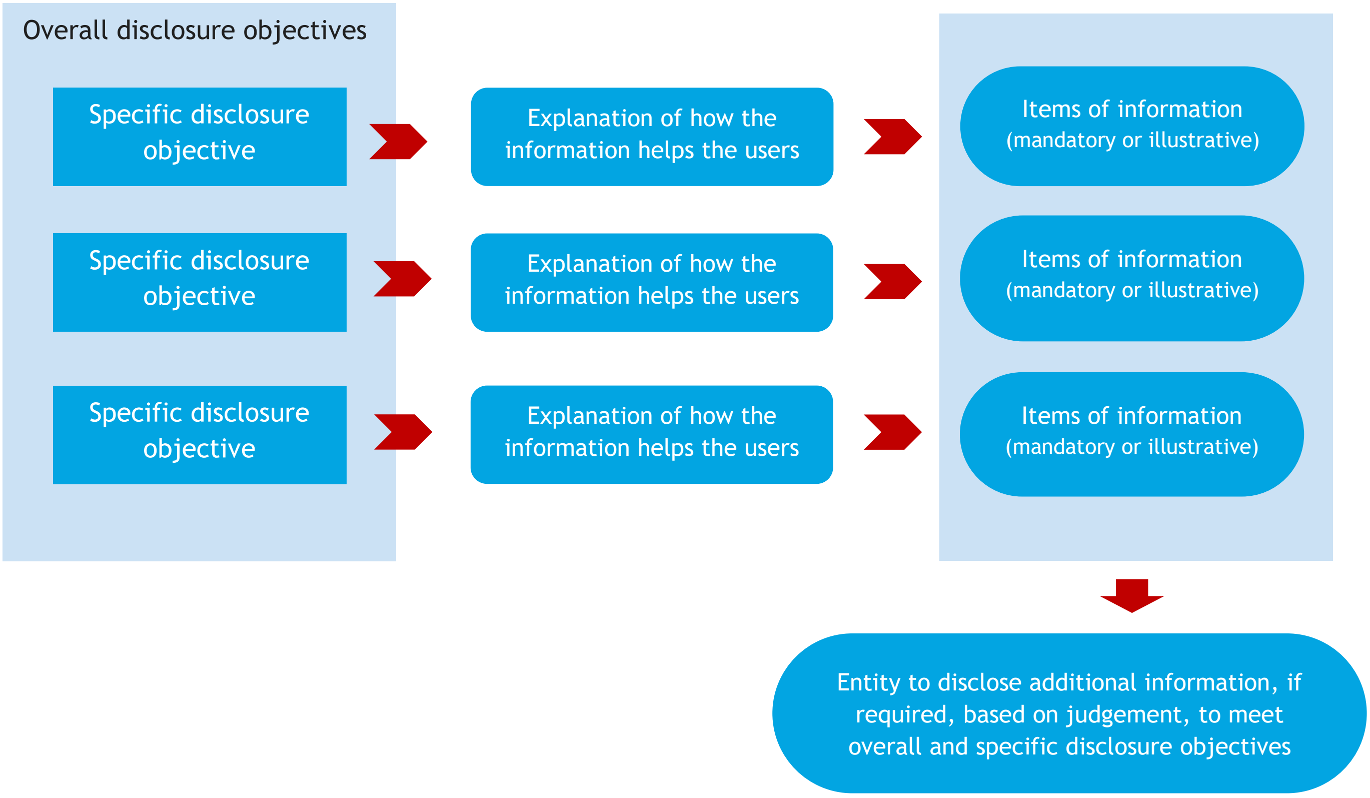
Specific disclosure objectives

- Describes detailed information needs of users of financial statements within the context of an individual IFRS standard.
- Requires entities to disclose all material information to enable those specific information needs to be met.
- Provides explanation of how the information is intended to help the users of the financial statements. Explanations intended to aid entities better understand the disclosure objective and facilitate materiality judgement.
- The Board is required to balance entity-specific information with information that is comparable across entities.

Items of information

- Identify items of information that an entity may or in some cases be required to disclose to meet each specific disclosure objective.
- The Board is required to explicitly link each item of information to one or more specific disclosure objectives.
- Help entities apply judgement and determine how to satisfy specific disclosure objective.

The structure of the disclosure requirements developed and drafted using the proposed Guidance would be set out below:



AMENDMENTS TO IFRS 13 AND IAS 19

In order to test the proposed approach, the Board sought to select standards that contained the issues that contribute to the disclosure problem and would benefit from a review of their disclosure requirements.

After research and outreach, the Board concluded that IFRS 13 and IAS 19 contained the issues that contribute to the disclosure problem and a review of the disclosure requirements of these two Standards would enable the Board to test all aspects of the proposed Guidance. Therefore, these two standards were selected for the review.

Amendment to IFRS 13

During the Board's outreach and consultation, the stakeholders expressed a view that the disclosure requirements of 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. At the same time, there is sometimes limited information about the fair value measurements that are material to the entity's financial statements.

The Board believes that the key benefit of applying the propose Guidance to IFRS 13 would be developing requirements that help entities make more effective materiality judgements.

The proposed amendments to IFRS 13 specify the overall disclosure objective to be that an entity should disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements.

The specific disclosure objectives and items of information are described with respect to the following:

- Assets and liabilities within each level of the fair value hierarchy;
- Measurement uncertainties associated with fair value measurements;
- Reasonably possible alternative fair value measurements; and
- Reasons for changes in fair value measurements.

The proposed amendments also provide specific disclosure objective and items of information 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.

Amendment to IAS 19

During the Board's outreach, stakeholders informed the Board that the disclosures provided in accordance with IAS 19 do not meet the information needs of the users. Often relevant information is not sufficiently disclosed and irrelevant information is provided in detail. The stakeholders also highlighted the challenges with effective communication of information.

The Board expects that the proposed disclosure requirements would facilitate disclosure of information that users find more useful.

The proposed amendments to IAS 19 specify overall disclosure objectives separately for defined benefit plans, defined contribution plans, termination benefits etc.

Specific disclosure objectives and items of information are provided for defined benefit plans, multi-employer plans and defined benefit plans that share risks between entities under common control.

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