

## STAFF PAPER

July 2018

## IASB Meeting

Project	Disclosure Initiative: Targeted Standards-level Review of Disclosures		
Paper topic	Selecting Standard(s)		
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**Objective**

1. The objective of this paper is to present staff analysis and recommendations to the Board relating to the selection of one or two Standards for the Board's targeted standards-level review of disclosures (targeted Standards-level review).

**Overview**

2. The paper is structured as follows:
  - (a) Background (paragraphs 3-5);
  - (b) Summary of staff recommendations (paragraphs 6-7);
  - (c) Objectives and scope of the targeted Standards-level review (paragraphs 8-13);
    - (i) Disclosure issues to prioritise in determining which Standard(s) to select (paragraphs 11-13);
  - (d) Shortlisted Standards that seem unlikely to support the objectives of the targeted Standards-level review (paragraphs 14-33);
  - (e) Shortlisted Standards that are more likely to support the objectives of the targeted Standards-level review (paragraphs 34-61);
  - (f) Staff recommendations and question for the Board (paragraphs 62-63);

## Background

3. At its March 2018 meeting, the Board decided to select one or two Standards on which to perform a targeted Standards-level review (see *Agenda Paper 11B* for this meeting). The staff presented a summary of feedback received on a shortlist of nine Standards for the Board to consider for review at its June 2018 meeting (see *June 2018 Agenda Paper 11D*). These shortlisted Standards are:
  - (a) IAS 7 *Statement of Cash Flows*;
  - (b) IAS 12 *Income Taxes*;
  - (c) IAS 16 *Property, Plant and Equipment*;
  - (d) IAS 19 *Employee Benefits*;
  - (e) IAS 21 *The Effects of Changes in Foreign Exchange Rates*;
  - (f) IFRS 2 *Share-Based Payment*;
  - (g) IFRS 3 *Business Combinations*;
  - (h) IFRS 8 *Operating Segments*; and
  - (i) IFRS 13 *Fair Value Measurement*.
4. Board members and staff discussed this topic at the joint Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meeting held in June 2018. We asked members to complete a pre-meeting online survey and select up to three of the shortlisted Standards that they think the Board should select for review. Based on responses to the online survey, the staff identified seven of the nine shortlisted Standards for further discussion at the meeting. We did not discuss IAS 16 and IAS 21 at the meeting because these Standards received relatively little support in the survey.
5. We will also discuss this topic at the July 2018 meeting of the Accounting Standards Advisory Forum (ASAF). We will provide the Board with an oral update of the result of this meeting at the July Board meeting.

## Summary of staff recommendations

6. The staff thinks that the Board should base its decisions about which Standard(s) to select on an assessment of the extent to which each Standard will provide effective material for testing the draft Guidance for the Board ('draft Guidance').
7. The staff recommend that the Board select IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*. This is because we think these Standards provide an effective opportunity to comprehensively test *all* aspects of the draft Guidance and would also benefit individually from improvements to their disclosure requirements.

## Objectives and scope of the targeted Standards-level review

8. The purpose of selecting Standard(s) is to test the draft Guidance. When deciding which Standard(s) to select, we think it is important to keep in mind that the objectives of the test are twofold:
  - (a) improve the draft Guidance (see *Agenda Paper 11B* for this meeting); and
  - (b) improve the disclosure objectives and requirements in the selected Standard(s), so that applying them provides information that is more useful to the primary users of the financial statements.
9. The staff think the test should assess whether:
  - (a) all of the tentative decisions on the draft Guidance can be effectively implemented. These relate to:
    - (i) *Step 1*: how the Board uses disclosure objectives (see *May 2018 Agenda Paper 11B*);
    - (ii) *Step 2*: the process the Board will use to develop the content of disclosure objectives and requirements (see *June 2018 Agenda Paper 11C*); and
    - (iii) *Step 3*: how the Board will draft disclosure objectives and requirements (see *Agenda Paper 11C* for this meeting); and

- (b) application of the draft Guidance is effective in addressing the disclosure issues highlighted in the Principles of Disclosure research project.
10. Consequently, the staff think the most effective way to test the draft Guidance, and achieve the objectives in paragraph 8, is to apply the draft Guidance to Standard(s) that have *most* of the identified disclosure issues (see the table in paragraph 11).

***Disclosure issues to prioritise in determining which Standards to select***

11. Table 1 provides a high-level summary of feedback received from stakeholders relating to the disclosure issues for each shortlisted Standard. This table updates the summary provided in Table 1 of *June 2018 Agenda Paper 11D* to include feedback received through the joint CMAC-GPF meeting.

**Table 1: High-level summary of feedback received from stakeholders on disclosure issues for the shortlisted Standards**

		Shortlisted Standards that seem <i>unlikely to support</i> the objectives of the targeted Standards-level review					Shortlisted Standards that are <i>more likely to support</i> the objectives of the targeted Standards-level review			
Category	Description	IAS 7	IAS 12	IAS 16	IAS 21	IFRS 8	IAS 19	IFRS 2	IFRS 3	IFRS 13
<b>A</b>	Issues related to disclosure objectives	✓					✓*		✓	✓
<b>B</b>	Issues related to disclosure requirements									
<b>B1</b>	Duplicative	✓					✓			✓
<b>B2</b>	Lengthy						✓	✓	✓	✓
<b>B3</b>	Costly to produce		✓*				✓*	✓*	✓	✓
<b>B4</b>	Not useful	✓	✓*				✓	✓*		✓
<b>B5</b>	Incomplete	✓*	✓	✓		✓	✓	✓	✓	✓
<b>B6</b>	Difficult to understand		✓			✓	✓		✓*	✓
<b>C</b>	Issues related to communicating the disclosure requirements (i.e. use of prescriptive language)	✓	✓				✓*	✓	✓	✓
<b>D</b>	Issues related to the adequacy of information provided in financial statements	✓	✓		✓	✓	✓	✓	✓	✓

\*Additional disclosure issues that were highlighted at the June 2018 joint CMAC-GPF meeting.

12. In light of the information in paragraphs 8-10, Table 2 identifies those disclosure issues that we think the Board should prioritise when deciding which Standard(s) to select. The table also highlights how each issue is important for testing the draft Guidance.

***Table 2: Link between disclosure issues to prioritise and draft Guidance***

Disclosure issues to prioritise	Relevant step(s) in the draft Guidance (see paragraph 9)
<b>A:</b> Issues related to disclosure objectives	Steps 1-3
<b>B1:</b> Duplicative disclosure requirements	Step 3
<b>B3:</b> Disclosure requirements that are costly to produce	Step 2 <ul style="list-style-type: none"> <li>• Understand what stakeholders want and why.</li> <li>• Perform a cost/benefit analysis.</li> <li>• Understand and document the effects of the proposed disclosure objectives and requirements.</li> </ul>
<b>B4:</b> Disclosure requirements that are not useful	Step 2 <ul style="list-style-type: none"> <li>• Understand what stakeholders want and why.</li> </ul>
<b>B5:</b> Missing or incomplete disclosure requirements	Step 2 <ul style="list-style-type: none"> <li>• Understand what stakeholders want and why.</li> <li>• Understand what disclosures would be required to support recognition and measurement requirements.</li> </ul>
<b>B6:</b> Disclosure requirements that are difficult to understand	Step 3
<b>C:</b> Issues related to communicating the disclosure requirements	Step 3
<b>D:</b> Issues related to the adequacy of information provided in the financial statements	Step 2 <ul style="list-style-type: none"> <li>• Understand what stakeholders want and why.</li> <li>• Understand what disclosures would be required to support recognition and measurement requirements.</li> </ul>

13. We think concerns about lengthy disclosure requirements (**B2**) should not be *prioritised* in determining which Standard(s) to selected for the targeted Standards-level review. This is because the focus of the targeted Standards-level review is on improving the usefulness of information provided to the users of financial statements rather than changing the volume of the disclosure

requirements. The staff notes that this is consistent with the decisions made at the March 2018 meeting, in particular, that the objective of the project will not be to change the volume of disclosure requirements, although this may be a consequence.

### **Shortlisted Standards that seem unlikely to support the objectives of the targeted Standards-level review**

14. The staff think that the Board should not select for review those shortlisted Standards that:
- (a) received relatively little feedback or support overall from previous outreach activities (see *June 2018 Agenda Paper 11D*) and discussions with CMAC and GPF members. We think that stakeholder engagement is an essential component of testing the Board's process for developing disclosure objectives. Consequently, we think that stakeholder support should be a key consideration in selecting Standard(s) for review; and/or
  - (b) have disclosure issues that are fundamentally linked to the recognition and measurement requirements of the Standard. We think that selecting such a Standard would carry a high risk of 'scope creep' and a loss of focus on the core objectives of testing the draft Guidance.
15. Consequently, while the staff acknowledge that improvements to the disclosure requirement in the below Standards would be beneficial, we think that these shortlisted Standards would not provide the best test of the effectiveness of the draft Guidance:
- (a) IAS 7 *Statement of Cash Flows* (paragraphs 16-20);
  - (b) IAS 12 *Income Taxes* (paragraphs 21-24);
  - (c) IAS 16 *Property, Plant and Equipment* (paragraphs 25-26);
  - (d) IAS 21 *The Effects of Changes in Foreign Exchange Rates* (paragraphs 27-28);
  - (e) IFRS 8 *Operating Segments* (paragraphs 29-33).

### **IAS 7 Statement of Cash Flows**

16. The disclosure issues raised by stakeholders about IAS 7 mainly related to insufficient disclosure objectives and incomplete disclosure requirements.
17. Two breakout groups at the joint CMAC-GPF meeting discussed disclosure concerns about IAS 7 and expressed mixed views—one group thought the Standard should be selected while the other did not.
18. Some CMAC members from both groups said that companies do not provide sufficient information about restricted cash flows and other cash sources such as free cash flows. However, members from the group that did not recommend IAS 7 for selection said that it would not provide a good basis for achieving the objectives of the Standards-level review. This was because, in their view:
  - (a) other shortlisted Standard(s) provide a better opportunity to more comprehensively test the Guidance for the Board; and
  - (b) many of the identified disclosure issues, specifically about lack of useful information may not be adequately addressed without a fundamental revision of the Standard.
19. The staff agree with the feedback provided by these members. We think the nature of the issues identified with IAS 7 indicate that it would not provide the best basis for testing all aspects of the Guidance for the Board.
20. Consequently, the staff recommend that the Board does not select IAS 7 to test the draft Guidance. This is for both of the reasons described in paragraph 14.

### **IAS 12 Income Taxes**

21. Stakeholders, including CMAC and GPF members, identified disclosure issues about IAS 12. Most notably:
  - (a) its disclosure requirements and the resulting information provided in the financial statements are difficult to understand;
  - (b) preparers find it difficult to produce some of the disclosure requirements; and



- (c) it does not require all the information that would be useful in understanding an entity's tax position.
22. Two breakout groups at the joint CMAC-GPF meeting discussed the disclosure concerns about IAS 12 and expressed mixed views—one group suggested that the Standard should be selected for the targeted Standards-level review while the other group did not. Members from the latter group said the Standard would not provide a good basis for achieving the objectives of the Standards-level review because, in their view:
- (a) the problems with tax disclosures would be difficult to address without a reconsideration of the recognition and measurement requirements in the Standard; and
- (b) improving tax disclosures is not a priority compared to other shortlisted Standards.
23. The staff agree with those members who said that the disclosure concerns about IAS 12 are closely related to the recognition and measurement requirements. Consequently, we think that it would be difficult for the Board to test the draft Guidance without also considering recognition and measurement issues. In addition, this Standard received less overall support from CMAC and GPF members than other shortlisted Standards.
24. Consequently, the staff recommend that the Board does not select IAS 12 to test the draft Guidance. This is for both of the reasons described in paragraph 14.

### ***IAS 16 Property, Plant and Equipment***

25. Stakeholders, including CMAC and GPF members, provided relatively fewer comments about disclosure issues on IAS 16 compared to the other shortlisted standards.
26. Consequently, the staff recommend that the Board does not select IAS 16 to test the draft Guidance. This is because we think that other shortlisted Standards contain more disclosure issues and would, therefore, provide a more comprehensive basis for testing the draft Guidance. We also think that other

Standards would achieve greater stakeholder engagement in the process (see paragraph 14(a)).

### ***IAS 21 The Effects of Changes in Foreign Exchange Rates***

27. Users who took part in the investor outreach programme for the Principles of Disclosure Discussion Paper indicated that entities do not provide enough information about the effect of foreign exchange on the financial statements. However, there was little support from CMAC and GPF members for reviewing the disclosure requirements in the Standard.
28. In light of the feedback received, the staff recommend that the Board does not select IAS 21 to test the draft Guidance. This is because we think that other shortlisted Standards would achieve greater stakeholder engagement in the process (see paragraph 14(a)).

### ***IFRS 8 Operating Segments***

29. Users, including CMAC members, have raised many concerns about segmental disclosures in financial statements. Many of these concerns relate to insufficient information and a lack of granularity of the information provided.
30. CMAC members in three of the four breakout groups strongly supported reviewing the disclosure requirements in IFRS 8. They highlighted the following reasons:
  - (a) lack of comparability between entities;
  - (b) insufficient information to understand how shared assets, costs and other items are allocated between segments. Some members were also concerned that the way items are allocated does not always reflect economic reality; and
  - (c) insufficient and inconsistent disaggregation of segmental information.
31. Some CMAC and GPF members said that many of the issues identified are related to the fundamental approach adopted in the Standard—that is, the management approach. Nevertheless, most CMAC members would still support the Board reviewing this Standard and identified it as a priority.

32. The staff acknowledge users' concerns about IFRS 8 and think that, on the basis of stakeholder engagement in the process, this Standard would be an excellent one for the Board to select. However, the nature of the concerns relates to the fundamental approach in the Standard. We do not think that these concerns could be addressed within the objectives of the targeted standards-level review. Consequently, the staff thinks that there is a high risk of scope creep if the Board select this Standard (see paragraph 14(b)). We also think there is a risk that users' expectations about the outcome of any review of IFRS 8 are unlikely to be met in this project.
33. Consequently, the staff recommend that the Board does not select IFRS 8 to test the draft Guidance.

### **Shortlisted Standards that are more likely to support the objectives of the targeted Standards-level review**

34. Based on feedback received from stakeholders, including feedback received through the joint CMAC-GPF meeting, the staff thinks that four of the shortlisted Standard(s) are strong candidates for the targeted Standards-level review.
35. Those shortlisted Standards are:
- (a) IAS 19 *Employee Benefits* (paragraphs 36-42);
  - (b) IFRS 2 *Share-Based Payment* (paragraphs 43-48);
  - (c) IFRS 3 *Business Combinations* (paragraphs 49-55); and
  - (d) IFRS 13 *Fair Value Measurements* (paragraphs 56-61).

### **IAS 19 Employee Benefits**

36. All disclosure issues that the staff thinks should be prioritised in selecting the Standard(s) for the targeted standards-level review were identified for IAS 19 (see the tables in paragraphs 11 and 12). Consequently, we think this Standard would enable a robust test of all aspects of the draft Guidance.

37. Three of the four breakout groups at the joint CMAC-GPF meeting supported reviewing the disclosure requirements in IAS 19 and included it within the top three Standards they selected.
38. Both CMAC and GPF members said that some of the disclosure requirements in the Standard do not provide information that would be useful in users' analysis. GPF members said the efforts spent in producing these disclosure requirements—including enlisting actuarial services—are not justified by the extent to which the resulting information is considered useful.
39. Many respondents to the Principles of Disclosure Discussion Paper said that the lack of clear, specific disclosure objectives and use of prescriptive language is a significant problem particularly in older Standards.
40. The staff agrees with the observations made by those respondents. In addition, most of the IAS Standards shortlisted for consideration do not currently have overarching disclosure objectives. Consequently, the staff thinks that there could be a unique learning benefit to the Board in selecting a relatively older Standard.
41. We acknowledge that the Board recently amended some of the disclosure requirements in IAS 19. However, those amendments only related to defined benefit plans. We think there are benefits to reviewing the entire set of disclosure requirements in IAS 19 because:
  - (a) users indicated as part of the 2015 Agenda Consultation that disclosures about employee benefits are uninformative and inadequate; and
  - (b) this Standard received relatively strong support from both CMAC and GPF members.
42. In light of the analysis described above, we recommend that the Board select IAS 19 to test the draft Guidance.

### ***IFRS 2 Share-Based Payment***

43. Both CMAC and GPF members questioned the usefulness of some of the disclosure requirements in IFRS 2. However, they did not specify the particular disclosures that are not useful but instead commented on excessive length of information disclosed about share-based payments in the financial statements.

44. Many CMAC members said the information they would find most useful in their analysis relates to the dilutive nature of share plans that are not yet vested. The staff notes that this issue is not limited to share-based payment transactions. Many equity instruments are exposed to potential dilution for which users would like enhanced disclosures. The Financial Instruments with Characteristics of Equity (FICE) research project is considering a number of approaches through which sufficient information about the effect of derivative equity instruments could be provided, including disclosures. We think that the FICE project offers a better opportunity to consider how to address users' concerns about dilution.
45. Furthermore, the staff think selecting IFRS 2 would not allow for a comprehensive test of all aspects of the draft Guidance as effectively as reviewing other Standards. In particular, stakeholders did not identify any issues with the existing disclosure objectives in IFRS 2. Consequently, we think that other Standards may provide a better basis for testing this fundamental part of the draft Guidance.
46. A few members at the joint CMAC-GPF meeting said that many of the issues with the disclosure requirements in IFRS 2 and IAS 19 are similar in nature. For example, both Standards give rise to very detailed disclosures, often are about multiple schemes and some of which users do not consider useful. Consequently, they suggested that the Board should not select *both* IAS 19 and IFRS 2.
47. The staff agrees that IAS 19 and IFRS 2 would test the draft Guidance in very similar ways. We note that IAS 19 received stronger overall support from CMAC and GPF members—while three breakout groups supported reviewing the disclosure requirements in both Standards, IFRS 2 was identified in the top three selected Standards by only one of those breakout groups.
48. In light of the analysis described above, we recommend that the Board should not select IFRS 2 to test the draft Guidance. This is because we think it would be more beneficial for the Board to select a second Standard that will test the draft Guidance in a different way to IAS 19.

**IFRS 3 Business Combinations**

49. Three of the four breakout groups at the joint CMAC-GPF meeting included IFRS 3 within the top three Standards they supported for review. Furthermore, IFRS 3 was the most selected Standard for review by CMAC members in the pre-meeting survey and was the most selected Standard by members of both groups collectively.
50. Stakeholders identified issues about the disclosure objectives in IFRS 3. However, users including CMAC members were primarily concerned about the absence of useful information and have raised relatively fewer concerns about the usefulness of the information they do receive about business combinations. Consequently, we think this Standard might provide an opportunity to test the use of disclosure objectives in a different way to the test of IAS 19 (see paragraph 38).
51. Furthermore, many users, including CMAC members said that the Standard does not require some disclosures that they would find useful in their analysis, most notably information about the subsequent performance of the acquired business. Many preparers, including GPF members said that it is difficult to produce some of the existing disclosure requirements in the Standard.
52. As part of the active research project on Goodwill and Impairment, the Board is exploring whether better and more timely information about acquisitions, goodwill and impairment can be provided through disclosures to users, without imposing costs that exceed the benefits. However, the Board is yet to make decisions on whether:
- (a) it will also amend the related recognition and measurement requirements; and
  - (b) the form, content and timing of the consultation document that should be issued as the next step in the research project.
53. We think that if the Board selects IFRS 3, it would potentially be of significant benefit to both projects. This is because:
- (a) testing the draft Guidance would benefit from the in-depth knowledge of user needs already developed in the goodwill and impairment project; and

- (b) the goodwill and impairment project could benefit from an in-depth review of the disclosure requirements in IFRS 3, especially if the Board concludes that the best approach to resolve the identified issues in that project would be through disclosures.
54. However, the staff think that the uncertainties described in paragraphs 52(a)-(b) make it difficult for the Board to select IFRS 3 for review at this time. This is because we think that selecting IFRS 3 before the direction of the goodwill and impairment project is clear could give rise to unhelpful delays on both projects.
55. Consequently, we recommend that the Board should not select IFRS 3 to test the draft Guidance.

### ***IFRS 13 Fair Value Measurement***

56. All the disclosure issues that the staff think should be prioritised in selecting the Standard(s) for the targeted standards-level review were identified by stakeholders for IFRS 13 (see the tables in paragraphs 11 and 12). We think this would enable a robust test of all aspects of the draft Guidance.
57. The IFRS Taxonomy team is currently undertaking a common practice project to identify whether there should be any changes to the IFRS Taxonomy content relating to fair value measurement. The staff think that the IFRS Taxonomy team's research would provide additional evidence about useful information, particularly in the context of digital reporting environment.
58. IFRS 13 and US GAAP Topic 820 *Fair Value Measurement* are substantially converged standards. On one hand, the staff thinks that this could present a risk that any changes to IFRS 13 might not be welcomed globally. However, the staff notes that the US standard setter, the Financial Accounting Standards Board (FASB) is in advanced stages of finalising amendments to the disclosure requirements in Topic 820. Some of the improvements to IFRS 13 suggested by stakeholders are the same as those considered by the FASB. Consequently, the staff thinks that similar improvements to the disclosure requirements in IFRS 13 could provide an opportunity to enhance convergence between IFRS Standards and US GAAP relating to disclosures about fair value measurements.

59. Compared to other shortlisted Standards, IFRS 13 received relatively little support from CMAC members—only one breakout group supported reviewing the disclosure requirements in IFRS 13 and listed it within the top three Standards they selected. Furthermore, while GPF members generally supported reviewing the disclosure requirements in IFRS 13, only one CMAC member selected IFRS 13 for review as part of the pre-meeting online survey.
60. Users raised many disclosure concerns about IFRS 13, both through the Post-Implementation Review (PIR) and the Principles of Disclosure Discussion paper. However, the discussions at the joint CMAC-GPF meeting indicates that users view improving the disclosure issues in other shortlisted Standard(s) as a higher priority. Consequently, the staff thinks that there is a risk that if the Board select IFRS 13, it might be more difficult to develop the specific disclosure objectives envisaged in the draft Guidance than would be the case for other Standards. This is because effective user engagement in the process is key to developing those objectives. Nevertheless, the PIR feedback demonstrates that there are ways in which the disclosure requirements in IFRS 13 could be improved.
61. On balance, we recommend that the Board select IFRS 13 to test the draft Guidance. This is because we think that IFRS 13 will help the Board to test the draft Guidance in a different way to IAS 19. We also think that selecting this Standard will be responsive to feedback received in the PIR.

### **Staff recommendations and question for the Board**

62. The staff recommend that the Board select two Standards to test the draft Guidance for the Board. We think this approach provides an opportunity to test the draft Guidance for the Board in different contexts.
63. Specifically, we recommend that the Board select IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*. This is primarily because both Standards contain all of the issues with disclosures in IFRS Standards that were identified throughout the Principles of Disclosure research project. We also think the possibility of improving the disclosure requirements in these Standards will be of benefit to stakeholders. Consequently, we think these Standards will serve as an



effective test of *all* aspects of the draft Guidance and would benefit individually from improvements in their disclosure requirements.

**Question 1**

Does the Board agree with the staff recommendations that, to test the Guidance for the Board to use when developing and drafting disclosure objectives and requirements, the Board should select:

- (a) IAS 19 *Employee Benefits*; and
- (b) IFRS 13 *Fair Value Measurement*?