



Alert

Disclosure Requirements in IFRS Standards – A Pilot Approach
Proposed amendments to IFRS 13 and IAS 19

Exposure Draft

July 2021



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Table of Contents

Overview	1
Background	1
Proposed Changes	2
Draft guidance	2
Proposed amendments to IFRS 13	2
Proposed amendments to IAS 19	3
Effective date	4
Additional information	4

Overview

In March 2021, the International Accounting Standards Board (“IASB”) issued for public comment, the Exposure Draft ED/2021/3, *Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)*. In May 2021, the Accounting Standards Board (“AcSB”) also issued an Exposure Draft that corresponds to the IASB’s Exposure Draft on this topic.

In addition to proposed amendments to IFRS 13, *Fair Value Measurement* (“IFRS 13”) and IAS 19, *Employee Benefits* (“IAS 19”), the Exposure Draft sets out a proposed new approach to developing and drafting disclosure requirements in IFRS Standards in the future. The IASB is seeking input on whether those proposals would improve the usefulness of information disclosed in financial statements. Feedback will help the Board determine whether and how to use the proposed new approach in its future standard-setting activities and whether to finalize the amendments to IFRS 13 and IAS 19.

The Exposure Draft is open for public comment until January 12, 2022. The comment period on both the IASB and AcSB Exposure Drafts was extended in July 2021 from the original deadline date of October 21, 2021, to allow additional time for respondents to evaluate the proposals, conduct fieldwork, and provide feedback on the practical application of the proposals.

Background

In response to the concern raised by stakeholders of the cumulative effect of disclosure requirements introduced by new and revised standards, the IASB undertook a research project to generally review disclosure requirements. The project included the publication of the Discussion Paper DP/2017/1, *Disclosure Initiative – Principles of Disclosure*, in March 2017 (the “Discussion Paper”).

Many respondents to the Disclosure Draft indicated that the checklist approach followed by entities for meeting the disclosure requirements contributed significantly to the disclosure problem. Respondents also indicated that the IASB’s way of developing and drafting disclosure requirements in IFRS Standards is partly responsible for the disclosure problem because many existing disclosures lack specific disclosure objectives. There was also considerable feedback that disclosure sections are drafted inconsistently across the IFRS Standards.

The Board acknowledged these concerns and decided to pursue a project following a four-step “pilot-based” methodology:

- Develop and draft guidance for the IASB to use when developing and drafting or amending disclosure sections;
- Select two IFRS Standards on which to apply the draft guidance;
- Test the draft guidance by applying it to those IFRS Standards; and

- Prepare an ED of the amendments to those standards prepared based on the draft guidance.

Proposed Changes

The Exposure Draft is comprised of three components:

- 1) Draft guidance for the IASB to apply when developing and drafting future disclosure requirements;
- 2) Proposed amendments to IFRS 13; and
- 3) Proposed amendments to IAS 19.

Draft guidance

The IASB proposes to employ overall disclosure objectives that describe the overall information requirements of users of financial statements as well as specific disclosure objectives that describe the detailed information needs of users of financial statements. This judgement-based approach to determining whether the objectives behind the disclosures have been met would be applied in place of the 'checklist' technique historically used.

To support the application of this new approach, the IASB proposes to provide (i) overall disclosure objectives in the future that describe the overall information needs of the users of financial statements; and (ii) specific disclosure objectives that describe the detailed information needs of users of financial statements users. An entity would then need to apply judgement to identify information satisfying each specific disclosure objective by evaluating whether the information is relevant or irrelevant and whether it helps the entity communicate effectively. The IASB would use more prescriptive language with respect to the overall disclosure objectives than it would for the specific disclosure objectives.

The IASB expects that the broad application of the guidance when developing and drafting future disclosure requirements will have a significant effect on the behaviour of entities, auditors, and regulators. Instead of confirming whether an item of disclosure specified by an IFRS has been provided, auditors and regulators will have to use judgement to assess compliance. Compliance will be achieved if the information provided effectively meets the disclosure objectives in the entity's case.

Proposed amendments to IFRS 13

In line with the draft guidance, the IASB is proposing an overall disclosure objective in IFRS 13 which would require an entity to disclose information that shows:

- a) The significance of the assets and liabilities measured at fair value;
- b) How the fair value measurements have been determined; and

- c) How changes in those measurements affect the entity's financial statements.

The proposed amendments also provide a description of the type of information needed to meet the disclosure objectives.

The specific disclosure objectives are then also described with respect to:

- The fair value hierarchy;
- Measurement uncertainties;
- Possible alternative fair value measurements; and
- Drivers of change in fair value measurements.

The specific disclosure requirements also cover requirements regarding assets and liabilities not measured at fair value in the statements of financial position but for which fair value is disclosed in the notes.

Proposed amendments to IAS 19

The overall disclosure objectives proposed for IAS 19 distinguish between defined benefit plans and defined contribution plans:

Defined benefit plans

For defined benefit plans, the overall disclosure objective requires an entity to disclose information that allows users of the financial statements to evaluate the uncertainties associated with the entity's involvement in its defined benefit plans and to assess the effect that the defined benefit plans have on the financial performance, financial position and cash flows of the entity.

The proposed specific objectives for defined benefit plans include:

- Amounts in the primary financial statements relating to defined benefit plans;
- The nature of, and risks associated with, defined benefit plans;
- Expected future cash flows relating to the defined benefit obligations at the end of the period;
- Future payments to members in defined benefit plans that are closed to new members;
- Measurement uncertainties associated with the defined benefit obligation; and
- Drivers of change in the amounts in the statement of financial position relating to the defined benefit plans.

The proposed amendments also discuss specific disclosure objectives for multi-employer plans and defined benefit plans that share risks between entities under common control as well as other types of employee benefit plans.

The type of information needed in order to meet the disclosure objectives is also provided.

Defined contribution plans

For defined contribution plans, the overall disclosure objective requires an entity to disclose information that allows users of financial statements to understand the effect that the defined contribution plans have on the financial performance and cash flows of the entity.

The IASB did not propose any specific disclosure objectives for defined contribution plans.

Effective date

The Exposure Draft does not contain a proposed effective date as the IASB intends to decide on this after exposure. Early application would be permitted.

Additional information

The full history of this IASB project, Disclosure Initiative - Targeted Standards-level Review of Disclosures, including related supporting materials, can be accessed [here](#).

The full history of the corresponding AcSB project can be accessed [here](#).

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