European Securities and Markets Authority

The Chair

4 January 2022
ESMA32-61-473

Mr Andreas Barckow
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf
London
E14 4HD
United Kingdom

Ref: IASB's Exposure Draft Disclosure Requirements in IFRS Standards – A Pilot Approach

Dear Mr Barckow,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IASB's due process with regards to Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach.* We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRS.

ESMA supports the ambition of the IASB to improve the quality of the disclosures provided by preparers of IFRS financial statements. European enforcers agree with the Board that financial statements frequently do not contain entity-specific and material information which would be of relevance to users and that a change in behaviour is needed.

ESMA very much welcomes the development of general and detailed disclosure objectives, as we expect that those will indeed help preparers to better apply materiality judgements. ESMA also welcomes the development of additional examples which provide helpful indications of how entities can achieve these objectives. However, ESMA does not believe that the approach proposed by this ED strikes the right balance between disclosure objectives and detailed disclosure requirements. Indeed, ESMA strongly believes that the disclosure requirements proposed in the ED should contain more mandatory disclosure items. For such disclosures, the general materiality principle of IAS 1 *Presentation of financial statements* would be applicable - just like it is today - and information would only need to be disclosed if material to the entity. Introducing "non mandatory" disclosure items may prompt reporting entities to limit the amount of information. ESMA is very concerned that, should the IASB proceed with the approach proposed in this ED, the hurdle for auditors and enforcers to challenge issuers who are not willing to be transparent by providing relevant disclosures in financial statements to inform investors would be too high. In the absence of specific disclosure requirements, it is likely to be difficult to conclude that the judgement made by the preparer is not reasonable and that specific information is needed to fulfill a certain objective. Moreover, the proposed approach may hinder achieving comparability between companies for which similar information is material and ultimately the quality of financial reporting and its usefulness for investors.

More detailed comments on the ED, including on the specific proposals relating to IFRS 13 *Fair Value* and IAS 19 *Employee Benefits* are set out in Appendix to this letter. In case you have any questions or comments please do not hesitate to contact me or Evert van Walsum, Head of the Investors and Issuers Department.

Yours sincerely,

signed

Verena Ross

Appendix

Question 1

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?

1. ESMA agrees that the Board should use overall disclosure objectives within IFRS Standards in the future. ESMA expects that this will be helpful for preparers, auditors and enforcers to better understand the information needs of users of financial statements and to better assess whether a certain disclosure serves the information needs it is expected to serve.
2. However, ESMA highlights that it would be essential that any such future approach is applied consistently across all Standards. In these regards it is relevant to note that a general provision is already included in IAS 1 *Presentation of Financial Statements* paragraph 31 which requires entities 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'sfinancial position and financial performance*". In addition, some objective-based disclosure standards, such as IFRS 12 *Disclosure of interests in Other Entities*, include a requirement to disclose any additional information needed to meet the disclosure objective, whilst others, such as IFRS 7 *Financial Instruments: Disclosures* , only contains such a provision for part of the topics covered by the standard[1].
3. ESMA believes that the interaction between the general provision in IAS 1 and the specific provisions included in the specific standards should be clarified and a harmonised approach should be applied across all Standards.

Question 2

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,

[1] IFRS 7 paragraph 35E (credit risk)

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?

4. ESMA agrees that specific disclosure objectives are likely to help entities apply judgement more effectively in deciding how to provide relevant information to users of financial statements and therefore help combat the "disclosure checklist" approach. The enforcement experience of European enforcers shows that overreliance on a mere compliance with detailed dislosure requirements does not ensure compliance with the disclosure objectives and therefore often results in poor and non entity-specific disclosures. To the contrary, a combination of overall and specific disclosure objectives would be desirable to provide the users of financial statements with relevant and entity-specific disclosures.

5. However, as further discussed in response to Question 3, ESMA does not 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. ESMA does not think that the current draft strikes the right balance between requirements to comply with objectives and detailed disclosure requirements (also referred to as "items of information"). In our opinion, the standard's objectives should be accompanied by more detailed disclosure requirements, which should be mandatory, subject to the overarching materiality considerations already established by IAS 1. In this regard, as already mentioned in the past[2], we would also consider it helpful if the IASB would provide illustrative guidance on how the notion of "obscuring" material information shall be understood in practice.

Question 3

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. […] (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

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[2] ESMA32-61-222 Comment Letter on IASB's Exposure Draft *Definition of Material – Proposed amendments to IAS 1 and IAS 8*, 11 December 2017.

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.

6. As already mentioned, ESMA sympathises with the IASB's ambition to discourage the use of disclosure requirements in IFRS Standards like a checklist. However, ESMA does not believe that the proposed approach will always result in relevant and informative disclosures as the approach does not strike the right balance between requirements to comply with objectives and detailed disclosure requirements. Rather, we deem this approach excessively risky and agree with the alternative view put forward by Ms Lloyd and Messrs Edelmann and Gast. In our opinion, as further discussed below, the standard's objectives should be accompanied by detailed disclosure requirements which the IASB would expect to be necessary to fulfill the disclosure objectives. In fact, ESMA believes that, when preparing new or revised standards, the IASB is best placed as standard setter to determine which disclosures should be provided about a specific transaction, event or position and to provide, next to disclosure objectives, a list of disclosures it expects to be useful on the basis of its discussions with users and all other relevant stakeholders. In ESMA's view, such disclosures should be compulsory to disclose unless immaterial. The disclosure objectives included in the standards would help preparers (and auditors and enforcers) to interpret these mandatory disclosure lists and to judge if a disclosure is material or if additional disclosures should be provided to meet the objective.

7. As indicated in ESMA's response to the IASB's discussion paper Disclosure Initiative – Principles of Disclosures (ESMA32-61-189), ESMA believes that the so-called "disclosure problem" is only partly caused by the way IFRS are written, such as the existence of prescriptive lists of disclosures. In ESMA's view, the problem is rather related to behavioural issues with how entities use such lists by applying (or rather, not applying) materiality judgement. It is relevant to note in these regards that the existing IFRS requirements already suffice for those entities who thoughtfully apply materiality judgement to provide relevant and decision-useful information to users since such preparers already understand that it is not required to provide disclosure of non-material elements. Paragraph 31 of IAS 1 clearly states that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.

8. ESMA notes that the IASB's approach is aimed at prompting a "culture change" away from a checklist approach. We note that one positive aspect of this ED is that the issuer will be more diligent in preparing disclosures and management will be more involved to ensure compliance with the overall disclosure objectives. Whilst the proposed approach might prompt such culture change in some preparers, there is no guarantee that this will happen for all issuers. On the other hand, ESMA is concerned that the hurdle for auditors and enforcers to challenge relevant disclosures from issuers who are not willing to be transparent is too high. In the absence of specific disclosure requirements, it is likely to be difficult to conclude that the judgement made by the preparer is not reasonable and that specific information is needed to fulfill a certain objective. ESMA believes that the "burden of proof" should be on the issuer and that in order to achieve the objectives the standards should provide, next to the disclosure objectives, detailed disclosure requirements, as it is the case already today.

9. In addition, ESMA is aware of concerns that the proposals in the ED could lead to decreased comparability. ESMA believes that such concerns would be addressed if future Standards will strike the right balance between disclosures objectives and detailed requirements to achieve those objectives. With reference to the proposals relating to IFRS 13 and IAS 19, in our view that would mean making all “items of information” currently proposed by the ED (subject to the materiality considerations of IAS 1) mandatory and, in addition, including some limited additional disclosure requirements. This is further discussed in the next questions.

10. It should also be noted that if the IASB does not provide mandatory disclosure items in standards, there is a risk that, in order to minimise costs, market participants will develop disclosure checklists or model financial statements themselves and use those lists instead of the disclosure items provided by the IASB.

11. Last but not least, ESMA encourages the IASB to better elaborate on how the proposed disclosure requirements are expected to help users in assessing management’s stewardship.

Question 4

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?

12. ESMA does not agree with the use of the proposed less prescriptive language to make clear that entities need to apply judgement to determine how to meet the specific disclosure objectives. ESMA is not persuaded that such a change in wording can prompt a genuine change in culture among preparers who currently apply a checklist approach to disclosures. ESMA believes that the inclusion of disclosure objectives in the Standards, if properly accompanied by detailed disclosure requirements, could be sufficient to prompt issuers to better understand the objective their disclosures should pursue and therefore better apply materiality judgement.

13. On the other hand, the use of the phrase “non mandatory” may prompt reporting entities to limit the amount of information disclosed regardless of its materiality and relevance to users. We do not see the benefit of remarking that immaterial or non relevant information is not mandatory - that is already the case today. ESMA would favour using a wording similar to the wording used in existing standards: “To meet the objective in paragraph X, an entity *shall* disclose […]”.

14. As already mentioned, ESMA considers that the IASB is best placed to assess the “common needs of users” and prepare a potential list of disclosures which it expects to be

relevant and material. Such list of disclosures should in our view be mandatory for all material items.

Question 5

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).

15. ESMA welcomes the consideration given to aspects linked to digital reporting as part of the proposed approach. However, ESMA thinks that the full implications of the digitisation of IFRS reporting may need to be further considered, not only specifically in the context of this ED, but also more broadly with regards to the wider "disclosure problem". In fact, ESMA thinks that it is likely that digitisation will contribute (and in fact, is already contributing) to solving the problem of the disclosure overload to some extent, since digital users of financial information are able to more easily navigate and find the information they are looking for without need to search for it manually - which is where the "disclosure overload" becomes most problematic. For that reason, ESMA believes that the IASB's priority should be first and foremost to ensure that preparers disclose all material and relevant information, since this aspect impacts *all* users of financial information. Disclosure of too much immaterial information (often in a prominent way), on the other hand, is likely to negatively impact mainly some specific categories of users (namely users of paper-based financial information) and as such the IASB should not give it equal weight when considering possible solutions to the "disclosure problem".
16. Furthermore, ESMA has some concerns that the proposed approach might translate into fewer requirements to disclose specific items of information and that this might compromise comparability among preparers whose situations are comparable. This might also have consequences for digital reporting, which will further reinforce the need for comparability across issuers. If fewer data points will be available in the IFRS taxonomy to tag that information, tagging in detail the notes (which is currently allowed on a voluntary basis in the EU) will require additional extensions. Whilst tagging could help make entity-specific disclosures more comparable, ESMA notes that as of today no jurisdiction mandates anchoring for the Notes. ESMA urges the IASB to ensure that its proposed approach does not lead to diminished comparability among preparers whose situations are comparable and that every disclosure requirement will correspond to a tag.

<u>Proposed amendments to IFRS 13 Fair Value Measurement applying the proposed Guidance</u>

Question 6

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?

17. ESMA agrees that the proposed overall disclosure objective described in BC62-BC73 would result in the provision of useful information that will contribute to meeting information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition, provided that this objective is completed by additional disclosure requirements as already discussed in answer to previous questions.
18. ESMA in particular agrees with the IASB's argument that detailed information about Level 2 fair value measurements is relevant to users of financial statements when it is associated with elevated measurement uncertainty and subjectivity (i.e. "grey area issues")(BC96). In order to more easily identify such circumstances, ESMA encourages the Board to provide more guidance and/or examples on the identification of grey area issues.

Question 7

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.

19. ESMA agrees with the specific disclosure objectives included about assets and liabilities measured at fair value in the statement of financial position after initial recognition discussed in BC74–BC97.
20. However, as discussed in the response to Questions 3 and 4, ESMA thinks that the disclosure objectives should be accompanied by more detailed and mandatory disclosure requirements.

Question 8

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?

21. ESMA agrees that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 because they contain easily accessible information about the impact of certain items being measured at fair value.

22. To the contrary, however, ESMA thinks the items of information included in paragraphs 106, 110, 113, 117 and 121 of the proposed amendments to IFRS 13 *Fair Value Measurement* should be mandatory as well if applicable and material to the entity. As already discussed, ESMA is sceptical that explicitly describing any disclosure requirements as "not mandatory" will achieve the objective of improving preparers' disclosures. ESMA would favour an approach whereby all such items of information are mandatory if applicable and material to the entity.

23. In particular, with regards to the proposed item of information included in paragraph 106(a), ESMA notes that appropriate aggregation of assets and liabilities into classes was one of the most important issues raised by respondents to the Post Implementation Review on IFRS 13. Against this background, ESMA highlights that the description of the nature, risks and other characteristics of the classes of assets and liabilities in each level of the fair value hierarchy should be mandatorily required by the IASB if applicable and material to the entity. At the same time, ESMA would welcome more guidance and examples to promote the appropriate level of aggregation (as also mentioned in our response to Question 11).

24. Furthermore, with regard to the specific disclosure objective in paragraph 107, ESMA notes that paragraph 110(c) refers to "quantitative *or* narrative information" about the significant inputs. ESMA believes not only that this information should be mandatory, as already discussed, but also that providing only qualitative information about the significant inputs would in most cases not be sufficient to allow a proper assessment of measurement uncertainties associated with fair value measurements. Therefore both quantitative and qualitative information should be required. That being said, ESMA acknowledges that some of the quantitative information presented in Illustrative Example 17 may be excessively burdensome to prepare and of limited value for users.

25. ESMA supports the IASB's decision to maintain the requirement to disclose a reconciliation of the significant reasons for changes in Level 3 fair value measurements

(paragraph 116) and shares the concern that, in absence of a requirement for a reconciliation, entities might provide boilerplate, unspecific descriptions.

Question 9

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?

26. ESMA supports the inclusion of 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 in the Notes.
27. In particular, ESMA notes that the IASB proposes a specific disclosure objective to focus on the amount, nature and other characteristics of these items. ESMA expects that this objective will support preparers in providing useful information for users to understand how these characteristics relate to the categorisation of assets and liabilities in the fair value category. It should also be noted that the information required by paragraph 118 will normally be readily available for issuers disclosing the fair value of an asset or liability and therefore not excessively burdensome to prepare. We consider therefore that the benefits of the specific disclosure would justify the costs.
28. Furthermore, ESMA believes that disclosures should also help users assess the sources of measurement uncertainties in the determination of the fair values disclosed in the Notes to evaluate the effect of measurements on the entity's financial position and financial performance. Please refer to our answer to Question 10 for a description of the additional items of information that in our view should be disclosed in order to meet this objective.

Question 10

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?

29. ESMA supports the requirement to disclose the proposed items of information included in paragraph 120 of the draft amendments to IFRS 13.
30. However, ESMA does not agree with the fact that the proposed items of information included in paragraph 121 are described as "not mandatory" as we do not think that this will achieve the objective of improving preparers' disclosures. ESMA would encourage the IASB to make these items of information also mandatory if applicable and material to the entity.
31. In addition, as highlighted in the answer to Question 9, ESMA believes that the specific disclosure objective about items not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes are expected to help preparers provide useful information to users to assess the sources of measurement uncertainties. Therefore, ESMA believes that entities should provide a description of the significant valuation techniques, description of changes in significant valuation thechniques and the reasons for those changes as well as information about the significant inputs used in the fair value measurements if such information is material and relevant to them. Also, when the highest and best use of a non-financial asset differs from its current use, an explanation should be provided. ESMA therefore recommends that such items of information are added to the list of required items of information.
32. ESMA considers that these diclosures are useful not only for items measured at fair value in the statement of financial position but also for assets and liabilities whose fair values are only disclosed, as these may also be subject to significant measurement uncertainties. ESMA thinks that, accordingly, additional mandatory items of information should be included in the Standard. ESMA deems that it would be acceptable for this information to be less detailed compared to the information provided to fulfill the disclosure objective of paragraph 107.

Question 11

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?

33. With regards to Illustrative Example 15, ESMA observes that it is not clear whether the explanations below the table are an example of a description of the nature, risks and other

characteristics of the classes of assets and liabilities in each level of the fair value hierarchy according to paragraph 106(a). ESMA encourages the IASB to clarify this.

34. In addition, ESMA notes that the IASB should clarify that, where the assessment of the disclosure objectives leads to new disclosures being provided, comparative information should always be provided in the financial statements.

35. ESMA does not have any additional comments at this stage.

Proposed amendments to IAS 19 Employee Benefits applying the proposed Guidance

Question 12

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?

36. ESMA supports the IASB's proposal for an overall disclosure objective for defined benefit plans. ESMA agrees that the proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans.

Question 13

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.

37. ESMA supports the specific disclosure objectives about defined benefit plans. ESMA agrees that the proposed specific disclosure objectives would help preparers provide more relevant information and contribute to reducing the amount of irrelevant information about defined benefit plans in financial statements.

38. However, as previously discussed, ESMA does not think that the IASB's proposal strikes the right balance between disclosure objectives and mandatory items of information and

is sceptical that explicitly describing any disclosure requirements as “not mandatory” will achieve the objective of improving preparers’ disclosures. ESMA believes that the IASB should require disclosure of more items of information, if applicable and material to the entity. Our detailed suggestions with regards to defined benefit plans are included in response to question 14.

Question 14

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?

39. ESMA agrees 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.
40. However, with regards to the non mandatory items of disclosure, as previously discussed, ESMA is sceptical that explicitly describing any disclosure requirements as “not mandatory” will achieve the objective of improving preparers’ disclosures. ESMA would favour an approach whereby all items of information are mandatory if applicable and material to the entity.
41. In particular, ESMA does not agree with the fact that the proposed items of information included in paragraph 147I, 147L (especially the disclosure included in point (a) and the disclosure of point (b) if and when future contributions have been agreed upon with the plan trustees or administrators or are required by regulatory or other agreements), 147P, 147S (especially the disclosures included in point (a)) and 147W are described as “not mandatory” as we do not think that this will achieve the objective of improving preparers’ disclosures. ESMA also notes that the information in 147P(a) is likely to be relevant for still accruing defined benefit plans as it is currently required by IAS 19 paragraph 147(c). ESMA recommends that the IASB also make these additional items of information mandatory if applicable and material to the entity.
42. In addition, ESMA thinks that information about the expected future cash flow effects for the defined benefit plan as a whole (Paragraph 147M), could be provided without differentiating between those that meet the defined benefit obligation recognised at the end of the reporting period and other expected future cash flows as a practical expedient if and only if the information required under paragraph 147J is not readily available, but not otherwise.

43. Furthermore, ESMA thinks that a sensitivity analysis for each signicant actuarial assumption, such as interest rate, mortality table, etc. is necessary in order to fulfill the objective stated in paragraph 147Q and should explicitly be required by the Standard.

44. ESMA is of the opinion that, in order to be useful to users, the tabular reconciliation required by paragraph 147V needs to be given separately for the plan assets, the defined benefit obligation and the asset ceiling.

45. Finally, ESMA does not agree with the wording in the application guidance paragraph A7. This paragraph seems to imply that the disclosures of paragraph 147L(c)(d) are only relevant for entities that report according to paragraph 147M. ESMA is of the opinion that the information in paragraph 147L(c)(d) is also relevant in case the entity reports the expected effects of the defined benefit obligation recognised at the end of the reporting period and should therefore be mandatory.

Question 15

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?

46. ESMA supports the overall disclosure objectives about defined contribution plans. However, ESMA would recommend to extend the objective to include also the effects on future cashflows.

47. However, in addition, ESMA is of the opinion that a list of minimum disclosures that are mandatory will be needed to meet the disclosure objective in paragraph 54A. For instance, in order to understand the effects of defined contribution plans on the entity's (future) cash flows, disclosing the next years' contribution and other factors that might influence the premium in the future is - in our view - always relevant.

48. Finally, ESMA noted that the reference to the requirements of IAS 24 regarding information about contributions to defined contribution plans for key management personnel, currently included in IAS 19 paragraph 54, has been omitted. We suggest to keep this reference as we consider it useful.

Question 16

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?

49. ESMA agrees that compliance with only the overall disclosure objective for defined contribution plans would not sufficiently communicate the risks to users of multi-employer plans and defined benefit plans that share risks between entities under common control. ESMA therefore supports the proposal of specific disclosure objectives for these types of plans.
50. However, ESMA encourages the IASB to reconsider whether mixing the overall objectives of defined contribution plans with one of the specific objectives of defined benefit plans does not create excessive complexity in understanding and applying the requirements. Specific disclosure requirements reiterating the applicable guidance should, in our view, be considered.
51. Furthermore, as previously discussed, ESMA is sceptical that explicitly describing any disclosure requirements as "not mandatory" will achieve the objective of improving preparers' disclosures. ESMA would favour an approach whereby all items of information are mandatory if applicable and material to the entity. In particular, in ESMA's view, the information requested in paragraphs 148B and 148D is crucial for the understanding of the risk in multi-employer plans and we see no reason why they should not be mandatory. The same reasoning also applies to paragraphs 149B and 149D.

Question 17

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?

52. ESMA agrees that the proposed overall disclosure objective for other types of employee benefit plans would result in useful information, which we expect to meet the overall information needs of users.

Question 18

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?

53. ESMA does not have additional comments at this stage.