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IFRS Newsletter
Bringing you the latest information on recent IFRS topics
April 2021

Dear all,

We are pleased to welcome you to the new edition of our IFRS Newsletter.

Our aim is to keep you updated with all the latest news and developments on IFRS and financial reporting along with the potential impact they may have on your business.

In this issue we discuss:

IASB proposes amendments to the disclosure requirements in IAS 19 and IFRS 13
IASB publishes amendment to IFRS 16 to extend the practical relief on COVID-19 – related rent concessions

We hope that you find our newsletter insightful and if you would like to discuss any of the topics covered, please do not hesitate to contact us.

Best regards,

Dimitris Katsibokis
Partner
Assurance Leader

IASB proposes amendments to the disclosure requirements in IAS 19 and IFRS 13

Background

In 2017, the Board published Discussion Paper DP/2017/1 *Principles of Disclosure* as a result of a research project aimed at understanding concerns expressed about information provided in financial statements and considered how the Board could address the problem of disclosures not providing enough relevant information and too much irrelevant information.

Many respondents to the DP highlighted the 'checklist' approach, which views disclosures as a compliance exercise rather than as a means of effective communication with users of financial statements, as a significant factor contributing to the disclosure problem.

Stakeholders considered that the Board's way of developing and drafting disclosure requirements in IFRS Standards is partly responsible for this 'checklist' approach, because:

- The Board uses prescriptive language like 'shall disclose' or 'as a minimum'
- There is a high volume of prescriptive disclosure requirements
- Often there are no specific disclosure objectives
- The interaction between the disclosure objectives and the prescriptive requirements is not clear
- Disclosure sections are drafted inconsistently.

The Board acknowledged these concerns and decided to set up a project that follows a four-step approach:

- Step 1—Develop draft guidance for the Board to use when developing and drafting disclosure sections
- Step 2—Select two Standards on which to apply the draft guidance
- Step 3—Test the draft guidance by applying it to those Standards
- Step 4—Prepare an ED of amendments to those Standards, incorporating the draft guidance.

Draft guidance for the Board when developing and drafting disclosure sections in IFRS Standards

The draft guidance (Step 1 above) is part of the consultation. The draft guidance addresses how the Board will seek to use disclosure objectives, develop the content of disclosure sections in IFRS Standards and draft disclosure sections in IFRS Standards. In particular, it explains how the Board will modify the disclosure requirements in IFRS Standards to enhance the use of judgement.

How the Board will use disclosure objectives

The Board will use overall disclosure objectives as well as specific disclosure objectives in the disclosure section of an IFRS Standard. The Board will also seek to describe disclosure objectives in IFRS Standards using language that encourages the application of judgement.

Overall disclosure objectives will:

- Describe the overall information needs of users of financial statements
- Require entities to disclose information that meets those needs
- Provide helpful context about the overarching and critical needs of users of financial statements
- Incorporate broad considerations that entities are required to consider when applying the specific disclosure objective in an IFRS Standard
- Prompt entities to consider whether the totality of the information provided by complying with the specific disclosure objectives in an IFRS Standard meets overall user information needs.

Specific disclosure objectives will:

- Describe detailed information needs of users of the financial statements
- Require an entity to disclose all material information to achieve the objectives
- Help entities applying judgement as to whether the information is material to their financial statements
- Be accompanied by a separate paragraph that provides context by explaining what the information is intended to help users of financial statements do.

The Board will develop items of information that an entity may, or in some case is required to, disclose to meet each specific disclosure objective. When developing specific disclosure objectives, the Board will balance entity-specific information with comparable information.

The Board will describe disclosure objectives in IFRS Standards in a way that aims to shift the focus from meeting a 'checklist' of disclosure requirements to considering whether a specific disclosure objective has been satisfied. The Board will achieve this by:

- Using prescriptive language to require entities to comply with disclosure objectives in the Standards ('shall')
- Typically using less prescriptive language when referring to items of information to meet the specific disclosure objectives ('while not mandatory, the following information may enable an entity to meet the disclosure objective').

How the Board will develop the content of disclosure sections in IFRS Standards

When developing disclosure sections of IFRS Standards, the Board will seek to:

- Understand the issue(s)
- Understand the needs of stakeholders
- Understand what disclosures are required to support proposed recognition and measurement requirements
- Perform a cost-benefit analysis
- Understand and document the effects of disclosure proposals.

How the Board will draft disclosure sections in IFRS Standards

The Board will take a number of other steps to ensure that disclosure sections of IFRS Standards are drafted in a way that clearly communicates their intent. In particular, the Board will:

- Use consistent language across IFRS Standards
- Format and present the disclosure sections in IFRS Standards
- Link related requirements and guidance across IFRS Standards and other publications.

The draft guidance is not a Standard. However, once finalised, the Board will apply the guidance in developing and drafting disclosure sections of IFRS Standards in the future. The Board expects that the broad application of the guidance will have a significant effect on the behaviour of entities, auditors and regulators by highlighting the need for judgement. Compliance will be achieved if the information provided effectively meets the disclosure objectives.

The proposed amendments to IAS 19 *Employee Benefits*

The Board proposes to replace the existing disclosure requirements in IAS 19 with a new disclosure section containing the following overall and specific disclosure objectives.

Disclosures on defined benefit plans

The Board proposes an overall disclosure objective that requires an entity to disclose information that enables users of financial statements to:

- Assess the effect of defined benefit plans on the entity's financial position, performance and cash flows; and

- Evaluate the risks and uncertainties associated with the entity's defined benefit plans.

The proposed specific disclosure objectives for defined benefit plans would require information about:

- Amounts, and components of those amounts, in the primary financial statements relating to defined benefit plans
- The nature of, and risks associated with, defined benefit plans, including strategies that the entity has in place to manage the plans and its associated risks
- Expected effects of the defined benefit obligations recognised at the end of the period on the entity's future cash flows, and the nature of those effects
- The period over which payments will continue to be made to members of defined benefit plans that are closed to new members
- Significant actuarial assumptions used to determine the defined benefit obligation
- Significant reasons for changes in the amounts in the statement of financial position that relate to the defined benefit plans from beginning to the end of the reporting period.

IAS 19 currently requires disclosure that enables users of financial statements to understand the sensitivity of the defined benefit obligation to different assumptions. However, the Board decided against developing a specific disclosure objective that would require an entity to provide this information. This decision is based on feedback suggesting that the information provided in response to the requirements in IAS 19 is typically costly to prepare and is not the most useful information to users. The Board concluded that the critical information needs of users of financial statements would be met by complying with the specific objective to disclose information about measurement uncertainties associated with the defined benefit obligation.

Disclosures on defined contribution plans

The Board proposes an overall disclosure objective that requires an entity to disclose information that enables users of financial statements to understand the effect of defined contribution plans on the entity's financial performance and cash flows.

The Board does not propose specific disclosure objectives for defined contribution plans.

Disclosures on multi-employer defined benefit plans and defined benefit plans that share risks between entities under common control

The Board proposes that an entity that accounts for its participation in a multi-employer defined benefit plan (or in a defined benefit plan that shares risks between entities under common control) as a defined contribution plan would be required to comply with the:

- Overall disclosure objective for defined contribution plans
- Specific disclosure objective about the nature of, and risks associated with, defined benefit plans.

The Board proposes that an entity that accounts such plans as defined benefit plans would be required to comply with the overall disclosure objective and specific disclosure objectives for defined benefit plans.

Disclosures on other types of employee benefit plans

The Board proposes overall disclosure objectives that require an entity to disclose information that enables users of financial statements to understand:

- The effect that short-term employee benefit plans have on the entity's financial performance and cash flows
- The nature of other long-term employee benefits and the effect that those benefits have on the entity's financial performance, financial position and cash flows
- The nature of termination benefits and the effect that those benefits have on the entity's financial performance, financial position and cash flows.

The proposed amendments to IFRS 13 *Fair Value Measurement*

The Board proposes to replace the existing disclosure requirements in IFRS 13 with a new disclosure section containing the following overall and specific disclosure objectives.

Assets and liabilities measured at fair value after initial recognition

The Board proposes an overall disclosure objective that requires an entity to disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements. The information should enable users of financial statements to understand:

- The significance of the classes of assets and liabilities measured at fair value for the entity's financial position and performance
- How the fair value measurements have been determined
- How changes in those measurements have affected the entity's financial statements at the end of the reporting period.

The proposed specific disclosure objectives would require an entity to disclose information about:

- The amounts, nature and characteristics of each class of assets and liabilities measured at fair value after initial recognition and how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy
- The significant valuation techniques and inputs used in determining fair value measurements
- The alternative fair value measurements that were reasonably possible at the end of the reporting period
- Significant reasons for changes in the fair value measurements from the beginning to the end of the reporting period.

Alternative view

Three Board members voted against the publication of the ED because of concerns about the draft guidance. In particular, they believe that developing objective-based disclosure requirements without requiring that specific items of information be disclosed will:

- Increase enforcement challenges
- Be burdensome for preparers of financial statements and increase reliance on materiality judgements; and
- Impair comparability by introducing a more flexible approach to disclosures.

Effective date and transitional provisions

The ED does not include an effective date for the proposed amendments to IAS 19 and IFRS 13. Earlier application is proposed to be permitted.

Should the amendments be finalised, the Board proposes that an entity applies the amendments prospectively from the first annual reporting period beginning on or after the effective date.

The comment period for the ED ends on 21 October 2021.

IASB publishes amendment to IFRS 16 to extend the practical relief on COVID-19-related rent concessions

Background

In May 2020, the Board amended IFRS 16 *Leases* to provide lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification. Lessees that apply the practical expedient account for COVID-19-related rent concessions as if they were not lease modifications.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if certain conditions are met. In the May 2020 amendment, one of the conditions was that a reduction in lease payments affects only payments originally due on or before 30 June 2021.

Stakeholders have pointed out that the ongoing significant and protracted effects of the pandemic were not envisaged at the time the Board developed the practical expedient, as in many jurisdictions the ongoing effects of the pandemic are at least as significant now as they were in May 2020. Consequently, lessors are granting rent concessions to lessees that reduce lease payments beyond 30 June 2021. Many of those rent concessions are otherwise eligible for the practical expedient.

The Board acknowledged the stakeholders' concerns and decided to extend the relief.

The amendment

The Board amends IFRS 16 to extend the availability of the practical expedient described above so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. This is the only change made to the practical expedient.

Effective date and transitional provisions

The amendment is effective for annual reporting periods beginning on or after 1 April 2021. A lessee is permitted to apply the amendment early, including in financial statements not authorised for issue at 31 March 2021, the date the final amendment was issued.

A lessee applies the amendment retrospectively. As such, it would recognise the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the amendment is first applied.

A lessee must apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the May 2020 amendment or the March 2021 amendment.

The Board notes in the Basis for Conclusions that the amendment changes only the date within the conditions required to be eligible to apply the practical expedient—it neither introduces a new practical expedient nor a new option to apply (or not apply) the practical expedient. Therefore, a lessee that has already applied the practical expedient must also apply the now extended scope of the practical expedient to eligible contracts with similar characteristics and in similar circumstances.

The amendment does not allow a lessee to elect to apply the practical expedient if the lessee has previously elected not to apply it to eligible rent concessions.

A lessee that has not established an accounting policy on applying (or not applying) the practical expedient to eligible rent concessions could still decide to apply the practical expedient. However, such a lessee would be required to do so retrospectively and consistently to eligible contracts with similar characteristics and in similar circumstances.

Where can I go for more information?

This publication highlights just some of the recent IFRS topics that may be of interest to entities reporting under IFRS. More detailed information can be found at www.iasplus.com

Contact Us

For any question you may have, please reach out to us at:

Dimitris Katsibokis
Partner
Assurance Leader - IFRS Advisory Leader

dkatsibokis@deloitte.gr
Tel: +30 210 678 11 55

Konstantinos Kakoliris
Principal
Assurance - IFRS Advisory

kkakoliris@deloitte.gr
Tel: +30 210 678 11 54

Olga Alexiou
Senior Manager
Assurance - IFRS Advisory

oalexiou@deloitte.gr
Tel: +30 210 678 11 53