STAFF PAPER

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IASB® Meeting

Project	**Disclosure Initiative: Targeted Standards-level Review of Disclosures**
Paper topic	IAS 19 Disclosure Objectives—Defined Benefit Plans

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Purpose of this paper

1. The purpose of this paper is to present staff analysis and recommendations on amendments to the disclosure objectives for defined benefit plans in IAS 19 *Employee Benefits*. We plan to bring staff analysis on items of information that could be used to meet the disclosure objectives to a future meeting

2. Agenda Paper 11C presents staff analysis and recommendations on amendments to the disclosure objectives for employee benefits other than defined benefit plans.

Structure of this paper

3. The paper is structured as follows:

   (a) Background (paragraphs 4-5).

   (b) User information needs (paragraphs 6-7).

   (c) Specific disclosure objectives:

      (i) amounts recognised in the primary financial statements (paragraphs 8-16);

      (ii) economics and risks of defined benefit plans (paragraphs 17-25);

      (iii) impact of the defined benefit obligation on future cash flows (paragraphs 26-51);

(iv) the time period over which the defined benefit obligation is expected to wind down (paragraphs 52-60);

(v) alternative defined benefit plan valuations (paragraphs 61-71)

(vi) assumptions and amounts underlying valuation of the defined benefit obligation (paragraphs 72-80)

(vii) sensitivities of the defined benefit obligation to different assumptions (paragraphs 81-94);

(viii) forecasting future defined benefit obligations (paragraphs 95-98).

(d) High-level, catch-all disclosure objective (paragraphs 99-102).

Background

4. Defined benefit plans are post-employment benefit plans other than defined contribution plans. IAS 19 requires the use of an actuarial technique to estimate the ultimate cost to the entity of the benefits that employees have earned for their service in current and prior periods.

5. Under defined benefit plans, the entity assumes:

(a) actuarial risk—that is, the risk that benefits will cost more than expected; and

(b) investment risk—that is, the risk that the assets invested will be insufficient to meet expected benefits.

User information needs

6. Users said that defined benefit plans represent their key area of exposure and interest in relation to employee benefits. Consequently, almost all users said that they focus more on disclosures relating to defined benefit plans compared to disclosures about other types of employee benefits.

7. Users told us that they want to be able to do the following with disclosures about defined benefit plans:

(a) understand the effect of a defined benefit plan on the amounts recognised in the primary financial statements (paragraphs 8-16);

(b) understand the economics of an entity's defined benefit plans and the risks to which the plans expose the entity (paragraphs 17-25);

(c) evaluate the impact of the defined benefit obligation on an entity's future cash flows (paragraphs 26-51);

(d) understand the time period over which the defined benefit obligation is expected to wind down (paragraphs 52-60);

(e) determine the value of the defined benefit obligation to input into analyses for forecasting (paragraphs 61-71)

(f) assess the appropriateness of the assumptions and amounts underlying an entity's valuation of its defined benefit obligation (paragraphs 72-80)

(g) understand the sensitivity of the defined benefit obligation to different actuarial assumptions (paragraphs 81-94);

(h) forecast future defined benefit obligations (paragraphs 95-98).

(a) Understand the effect of a defined benefit plan on the amounts recognised in the primary financial statements

8. Users would like to understand how the defined benefit plans held by an entity have affected its financial performance, financial position and cash flows during the reporting period. Specifically, they want to understand:

   (a) whether, and by how much, the plan(s) are in surplus or deficit.

   (b) the impact of the plan(s) on the statement(s) of financial performance during the period.

   (c) the actual cash flows for the plan(s) during the period.

9. Almost all users we spoke to in outreach, including those that do not analyse detailed pension disclosures, highlighted this information need as particularly critical. This is because:

(a) for users that do not analyse detailed pension disclosures, the information helps them to quickly understand how the defined benefit plans have affected the financial statements.

(b) for users that do analyse detailed disclosures, the information is especially helpful to have at the beginning of the pension note because it helps them navigate and understand the detailed disclosures that follow. Some users have described their need as an ‘executive summary’. Furthermore, the information allows them to determine which amounts to factor into their analysis. For example, a few users want to exclude post-employment medical plans from the defined benefit obligation, or exclude actuarial gains and losses from the total defined benefit cost.

10. A few GPF and ASAF members supported addressing this user information need. A few of these members observed that preparing and auditing this information would not be costly because the information is already available internally. A few other GPF members thought the information could be costly to prepare depending on the level of disaggregation required.

Staff analysis

11. Staff think user information needs in this area are justified. Users are asking for information that explains the amounts in the primary financial statements relating to defined benefit plans and that enables them to link information in the notes to the primary financial statements. Such information might include, for example, a breakdown of the defined benefit cost into components such as the current service cost, past service cost, net interest on the net defined benefit liability (asset) and so on.

12. We acknowledge that this user information need could be assumed to go without saying and that an objective to address this user information need would be similar to the existing objective in paragraph 135(b) of IAS 19.

13. However, many users told us that it is often difficult or time consuming for them to obtain a simple understanding of the effect of defined benefit plans on the primary financial statements. Where entities have provided such information today, it is often not a detailed breakdown (for example, it contains a large ‘other’

category) or is not easily reconcilable to the amounts presented in the primary financial statements. Staff think that this is a clear example of ineffective communication contributing to the disclosure problem.

14. Therefore, we think that a clear and specific disclosure objective would help preparers to better understand, and respond to, this user need. Furthermore, we think this may lead to a simple, but effective, improvement in pension disclosure notes for users without imposing too much cost on preparers.

15. We note that the usefulness of information provided in response to that objective could be enhanced through further disaggregation, for example, by funding arrangements or geographical locations. We think the required level of disaggregation can be specified using a general disaggregation objective that applies to all information provided about defined benefit plans. Therefore, we address disaggregation as part of our analysis of the high-level, catch-all disclosure objective in paragraphs 99-102.

Staff recommendation

16. Staff recommend that the Board:

    (a) include a specific disclosure objective in IAS 19 requiring an entity to disclose information that enables users to understand the amounts, including the components of those amounts, in its statements of financial performance, financial position and cash flows arising from its defined benefit plans;

    (b) explain in IAS 19 that users need such information to:

        (i) navigate subsequent detailed pension disclosure information and reconcile it to the primary financial statements; and

        (ii) identify amounts to include or adjust for in their own analysis.

Question 1
Does the Board agree with the staff recommendation in paragraph 16?

(b)—Understand the economics of an entity's defined benefit plans and the risks to which the plans expose the entity

17. Users want information that explains:

    (a) the nature of the benefits provided by an entity's defined benefit plan(s); and

    (b) the investment risks—see paragraph 5(b)—arising from the plan(s) and how the entity manages those risks.

18. Such information helps users to assess the potential future impact of the risks associated with a defined benefit plan. This might include, for example, information about whether the plans are funded or unfunded and how the entity manages the plan assets to deliver the promised obligations.

19. A few GPF members supported addressing this user information need and did not raise any cost concerns. One GPF member noted that much of the information that can be used to satisfy this objective is already available internally.

Staff analysis

20. By definition, defined benefit plans are any post-employment benefit plan other than defined contribution plans and could include many different types of arrangement. For users to evaluate the effect of those arrangements on the entity, they need to understand the entity's involvement in the plan(s), the nature of the benefits to be provided and how an entity plans to deliver those benefits.

21. Users are concerned about defined benefit obligations because they are often one of, if not the, biggest demands on an entity's resources. This concern is even more pronounced when assets held may not be enough to meet the obligations. In these circumstances, users want to know how the entity will meet the shortfall. This was reiterated at the June 2019 joint meeting of Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF). One CMAC member said that their:

    > 'nervousness [with defined benefit plans] is around the plan assets and their returns. There is a very serious risk that we could have a market collapse or a situation where

reasonable returns can only be achieved by high-risk investments that can actually go under.'

22. Staff think that users' requests for information about the economics of a defined benefit plan and the associated risks are justified. Such information might include, for example, the investment policies and strategies that an entity has in place to address its defined benefit obligation. We think this directly relates to the information that financial statements should provide to meet the objective of financial reporting, in particular information about how effectively and efficiently management has discharged its responsibilities to use the entity's economic resources as described in paragraph 1.22 of the Conceptual Framework.

23. Furthermore, we understand that defined benefit plans are increasingly moving towards more complex investment strategies (for example, moving away from equities and towards liability driven investment strategies). Consequently, staff think that information about the investment strategies and associated risks is becoming increasingly important.

24. A few ASAF members have raised concerns that disclosures about economics and risks would be boilerplate and voluminous. Staff understand this concern; however, we think that there is important entity specific information to be disclosed. We think that a clear, specific disclosure objective—along with examples of information that could be used to meet that objective—will help preparers to exercise judgement and avoid including boilerplate information.

Staff recommendation

25. Staff recommend that the Board:

    (a) include a specific disclosure objective in IAS 19 requiring an entity to disclose information that enables users to understand the:

        (i) nature of the benefits provided by its defined benefit plan(s);

        (ii) nature and extent of risks, in particular the investment risks to which those plan(s) expose the entity; and

        (iii) strategies that the entity has in place to manage the plan(s) and the associated risks.

(b) explain in IAS 19 that users need such information to:

(i) assess how the entity intends to deliver the benefits promised to members of its defined benefit plan(s); and

(ii) evaluate how the risks associated with those plan(s) might affect the entity in future.

Question 2

Does the Board agree with the staff recommendation in paragraph 25?

(c)—Evaluate the impact of the defined benefit obligation on an entity's future cash flows

26. Almost all users said that better information about the expected effects of a defined benefit plan on future cash flows is critical to their analysis. Specifically, users are seeking to:

(a) understand the nature of the expected future cash flows.

(b) forecast the impact of the defined benefit obligation on future cash flows for input into analyses such as the discounted cash flows (DCF).

(c) assess whether the defined benefit obligation could become significant enough to curtail an entity's strategic flexibility—that is, its ability to effectively respond to capital needs in other areas, including its ability to pay dividends.

27. Users said that the information provided could either be based on agreements with plan trustees/managers or management expectations.

28. Many GPF and a few ASAF members said that they expect information about future cash flows to be the most relevant information for users about defined benefit plans. GPF members added that:

(a) most of the questions they get from users about their defined benefit plans are about the effects on cash flows; and

(b) plan trustees are also most interested in understanding the effects on cash flows.

29. Consequently, GPF and ASAF members understand users' needs for improved information about future cash flows in the financial statements and support providing such disclosures. Furthermore, GPF members said the cost of providing information about future cash flows would not be too onerous, with a few saying that much of the information that could be used to meet user needs is already available internally.

Staff analysis

30. In this section, we discuss:

   (a) whether it is appropriate for IFRS Standards to require information about future cash flows in financial statements (paragraphs 31-39);

   (b) whether the bases of information about future cash flows affect developing an objective (paragraphs 40-41);

   (c) whether the objective should specify a period of time over which to disclose information about future cash flows (paragraphs 42-45); and

   (d) how information about future cash flows interacts with the recognition and measurement requirements in IAS 19 for defined benefit plans (paragraphs 46-49).

Is it appropriate for IFRS Standards to require information about future cash flows in financial statements?

31. Information about future cash flows represents forward-looking information.

32. Paragraph 3.6 of the Conceptual Framework states that financial statements do not typically provide forward-looking information. However, it also states that:

> Information about possible future transactions and other possible events (forward-looking information) is included in the financial statements if it:
>
> (a) ***relates*** to the entity's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period [***emphasis added***]; and
>
> (b) is useful to users of financial statements.

33. Feedback from *all* stakeholders so far demonstrates that information about the effect of a defined benefit plan on an entity's future cash flows would be useful to users. This is partly because such information enables users to assess the extent to which the defined benefit obligation could curtail the entity's strategic flexibility. We think such information directly affects the returns that potential investors, lenders and other creditors expect and could help users to assess management's stewardship of the entity's resources.

34. Consequently, we think the criteria in paragraph 3.6(b) of the Conceptual Framework is satisfied.

35. Information about the effects of a defined benefit plan on future cash flows could contain two types of forward-looking information:

    (a) future cash flows relating to employee services expected to be received in future reporting periods (i.e. normal payroll contributions); and

    (b) future cash flows that an entity expects to make to meet the defined benefit obligation that exists at the end of the reporting period (e.g. deficit repair payments for funded plans and payments to meet the defined benefit obligation for unfunded plans).

36. Staff think the information about future cash flows described in paragraph 35(b) *relates directly* to the defined benefit obligation that exists at the end of the reporting period. This is because the future cash flows provide information about how the entity will fund the existing deficit—that is, the difference between the existing defined benefit obligation and the assets held to fund those obligation. Consequently, we think information about these cash flows clearly satisfies the criteria in paragraph 3.6(a) of the Conceptual Framework.

37. Our outreach suggests that the great majority of defined benefit plans are closed to both new members and to the accrual of further benefits to existing members. Where this is the case, all future cash flows relating to the plan will be those described in paragraph 35(b).

38. However, for plans that remain open to the accrual of further benefits to members, information about future cash flows is likely to include cash flows relating to employee services to be provided in future periods—that is, those future cash

flows described in paragraph 35(a). We think that this information is more difficult to link to the defined benefit obligation that exists at the end of the current reporting period. Therefore, we do not think the Board can develop an objective that *requires* such information to be disclosed.

39. Consequently, staff think that the Board should develop an objective in this area that relates directly to the expected effects of any defined benefit obligation that exists *at the end of the reporting period* on future cash flows. We think it is reasonable to define the objective in this way because feedback from preparers suggests that splitting between normal payroll contributions and other contributions will not be costly.

Does the basis of information about future cash flows affect developing an objective?

40. There are two bases on which an entity could provide information about future cash flows:

    (a) information based on existing agreements (for example, between the reporting entity and the plan trustees/managers); and

    (b) information based on management expectations or forecasts.

41. We think these bases relate to *how* an entity should provide information about future cash flows and not whether such information should be provided. Consequently, we will consider these different bases within our analysis of different types of information an entity might use to meet such an objective for a future Board Meeting

Should the objective specify a period of time over which to disclose information about future cash flows?

42. While GPF members supported users' need for information about future cash flows, they said the information should cover a relatively short period of time. A few of these members added that the information should be required for no more than five annual reporting periods.

43. We think this feedback is valid. If an entity were required to disclose the expected effects on future cash flows indefinitely, this could be hard to comply with in a useful way. This is because an entity may not have reliable information beyond a

certain point. However, we think it might be unhelpful for the Board to mandate the period of time for which an entity should provide information about future cash flows.

44. Therefore, we have considered how the Board should articulate any disclosure objective in this area. We think it is important to ensure that the objective requires only information that is:

(a) realistic to prepare; and

(b) provides useful information.

45. Consequently, we think the disclosure objective should focus on the need for entities to communicate information about the expected effects on future cash flows that is *reasonably known* at the reporting date. We think this would make clear to preparers that judgement should be applied in determining the appropriate period of time over which to provide disclosure. Furthermore, we think supplementing the objective with items of information that might be used to meet it will help preparers to apply the term 'reasonably known'. We will provide staff analysis on those items of information for a future Board Meeting.

How does information about future cash flows interact with the recognition and measurement requirements in IAS 19 for defined benefit plans?

46. Staff are aware of concerns that information about future cash flows would be unrelated to the measurement of the defined benefit obligation in the financial statements and would imply that the measurement requirements in IAS 19 do not provide useful information. For example, some think that information about future cash flows for a defined benefit plan can only be used to support a funding valuation and not an IAS 19 actuarial valuation. This is because the funding valuation ensures that the plan has sufficient funds to meet future benefit payments while the IAS 19 actuarial valuation measures the cost of services provided by employees.

47. Paragraph 3.6 of the Conceptual Framework (see paragraph 32) only requires information about future cash flows to be useful to users and to *relate* to the existence of the entity's defined benefit plan assets and liabilities. In other words,

staff think that the information does not have to be related to the *measurement* of the assets and liabilities to be included in the financial statements.

48. Furthermore, funding valuations are used as a means of deciding the extent to which additional funding is required from the entity. Hence, a funding valuation is based on the services provided in the current and prior periods albeit using more prudent assumptions than those that would have been used for the IAS 19 actuarial valuation. Consequently, even when an entity uses a funding valuation to prepare information about future cash flows, we do not think this information conflicts with the IAS 19 actuarial valuation

49. Regardless of preparation method, we think information about future cash flows is relevant to users because it helps to link the existing defined benefit obligation with the assets held to fund those obligation (see paragraph 36).

Staff conclusion and recommendation

50. In summary, staff think it is appropriate for the Board to include a specific disclosure objective in IAS 19 relating to the effects that any defined benefit obligation have on an entity's future cash flows. This is because it:

    (a) relates to the existence of the entity's defined benefit plan assets and liabilities as prescribed by paragraph 3.6(a) of the Conceptual Framework;

    (b) provides useful information to users as prescribed by paragraph 3.6(b) of the Conceptual Framework. Users have highlighted this information as particularly critical; and

    (c) is not expected to place undue burden on preparers.

51. Staff recommend that the Board:

    (a) include a specific disclosure objective in IAS 19 requiring an entity to disclose information that enables users to understand the expected effects of any defined benefit obligation on the entity's future cash flows that are reasonably known to the entity at the reporting date.

    (b) explain that users need such information to evaluate and forecast the impact of the defined benefit obligation on the entity's future cash flows and assess how the obligation impacts the entity's ability to respond to capital needs in other areas, for example, its ability to pay dividends.

Question 3
Does the Board agree with the staff recommendation in paragraph 51?

(d)—Understand the time period over which the defined benefit obligation is expected to wind down

52. Specifically, users want to understand the period over which payments will continue to be made to plan members and the expected payments during that period.

53. Users highlighted that this information is particularly important for defined benefit plans that are closed to new members ('closed plans').

54. A few GPF members commented that it would be challenging to provide information about expected benefit payments to plan members.

55. At the joint CMAC-GPF meeting in June 2019, CMAC members confirmed that they need to understand the time period over which the obligation is expected to wind down. However, most of these members said disclosure of the weighted average duration of the defined benefit obligation and the period over which benefits will continue to be paid from the plan would be sufficient information. GPF members said the cost of providing this information in the financial statements would be less onerous than providing the information described in in paragraph 52 because the information is largely available in actuarial reports today.

Staff analysis

56. Staff agree that providing information about the period over which the defined benefit obligation is expected to wind down would be useful to users. Such information would enable users to understand how long they need to 'worry' about the obligation.

57. However, staff think that the user needs described in paragraph 52 about expected payments are more relevant to the financial statements of the plan itself rather than those of the reporting entity. Furthermore, we think our recommended disclosure objective about future cash flows provides the most relevant information about the effect that the defined benefit obligation has on the entity.

58. Consequently, we think this disclosure objective should focus only on helping users to understand the time period over which the defined benefit obligation is expected to mature. We will analyse the particular items of information that could be used to meet this user need for a future Board meeting, including the items of information suggested by the CMAC members in paragraph 55.

59. Furthermore, we think it would not be feasible for entities to provide useful information for plans that are still open to new members. Consequently, we think this objective should be limited to closed plans.

Staff recommendation

60. Staff recommend that the Board include a specific disclosure objective in IAS 19 requiring an entity to disclose information that enables users to understand the time period over which the defined benefit obligation for plans that are closed to new members is expected to mature.

Question 4
Does the Board agree with the staff recommendation in paragraph 60?

(e)—Determine the value of the defined benefit obligation to input into analyses for forecasting/alternative defined benefit plan valuations

61. Users want to determine the value of the defined benefit obligation to input into their analyses for forecasting:

    (a) for one group of users, this value is the defined benefit obligation as measured in the primary financial statements.

    (b) for another group of users, their starting point is the defined benefit obligation as measured in the primary financial statements. However, they make some adjustments to arrive at what they consider to be a 'debt-like' obligation. These users are of the view that some, but not all, defined benefit plans are akin to debt. For example, defined benefit health plans are not considered to be debt-like. This is because, in their view, such plans often lack funding flexibility and regulatory protection in some jurisdictions. These users adjust for such plans in arriving at the defined benefit obligation they include in their analysis.

(c) a third group of users want to use a buyout value—i.e. the amount that a third party, for example an insurance company, could be paid to take on the defined benefit obligation.

62. Many users we spoke to during outreach said that when alternative defined plan valuations are included in the financial statements, it is often difficult for them to understand how and why they differ from the IAS 19 valuation.

63. Some CMAC members at the joint CMAC-GPF meeting in June 2019 said that if an alternative valuation has been performed, that valuation should be disclosed in the financial statements. In terms of understanding how and why alternative plan valuations differ from the IAS 19 valuation, some members thought this was a matter for investor education rather than the financial statements.

64. Some GPF and ASAF members thought providing information about alternative plan valuations would be costly.

Staff analysis

65. Staff observe that the majority of users we spoke to are satisfied with the defined benefit obligation as measured in the primary financial statements—that is those users referred to in paragraphs 61(a)-61(b)).

66. Feedback demonstrates that information about alternative valuations of the defined benefit obligation would provide useful information to some users.

67. The Board could consider developing an objective that requires entities to provide information to enable users to determine the valuation they would like to include in their own analysis. This would respond to the user information need described in paragraph 61(c). However, we do not think an entity could reasonably be

expected to comply with such an objective. This is because different investors want different valuations and providing the information could be costly.

68. Furthermore, staff think the reason some users may want information about alternative valuations is that they disagree with the recognition and measurement requirements in IAS 19. This is beyond the scope of the Targeted Standards-level Review of Disclosures project.

69. We think that requiring disclosures about alternative valuations could ultimately lead to different companies providing fundamentally different information about employee benefits. This would make comparisons between entities more difficult for users than is the case today.

70. Therefore, we do not think the Board should consider a disclosure objective requiring entities to disclose information about alternative defined plan valuations.

Staff recommendation

71. Staff recommend that the Board does not include a specific disclosure objective in IAS 19 relating to information about alternative defined benefit plan valuations.

Question 5
Does the Board agree the staff recommendation in paragraph 71?

(f)—Assess the appropriateness of the assumptions and amounts underlying the entity's valuation of its defined benefit obligation

72. Users want information about the assumptions and amounts that an entity factors into its valuation of the defined benefit obligation. Users are not looking to 'recreate' the entity's valuation; rather, they want to assess:

    (a) whether those assumptions and amounts are reasonable; and

    (b) whether they need to adjust for those assumptions and amounts in their analysis—for example, if those assumptions and amounts are inconsistent with what users had expected.

73. GPF members generally supported addressing this user information need. They said it is not costly to provide the type of information that users say would meet this objective.

Staff analysis

74. Users have told us that they need to understand the:

(a) assumptions used in measuring the defined benefit obligation (paragraphs 75-76); and

(b) drivers of changes in measurement from period to period (paragraphs 77-79).

Assumptions used in measuring the defined benefit obligation

75. Defined benefit plans are long-term in nature and their valuation requires the use of significant judgments and estimates. Consequently, we think a faithful representation of the defined benefit obligation needs to include an explanation of the uncertainties affecting its measurement. Furthermore, we think providing this information will:

(a) make the measurement of the obligation more understandable; and

(b) allow users to compare an entity's measurement with information from other sources, for example information about general economic conditions. This will help users to assess the reasonableness of the assumptions used by the entity.

76. We think any disclosure objective in this area should focus on assumptions that are *most significant* to the measurement of the defined benefit obligation. This is consistent with paragraph 127 of IAS 1 which states that the assumptions and other sources of estimation uncertainty to be disclosed should relate to the estimates that require management's most difficult, subjective or complex judgments.

Drivers of changes in measurement from period to period

77. Users say information that enables them to understand why a defined benefit obligation has changed during the period is useful to their analysis. This is

because it helps them to fully understand the measurement of the obligation and identify any ‘holes’ or problems in their analysis.

78. Entities typically provide this information today by reconciling opening to closing balances of an entity’s net defined benefit liability (or asset), providing separate reconciliation for plan assets and the defined benefit obligation. Users shared mixed views on the level of granularity of these disclosures that is necessary for their analysis. Some said that a full reconciliation is useful whilst other users said they place more focus on specific drivers of change—that is, the contributions into the defined benefit plan and the benefit payments from the plan. Preparers said that it is relatively straight-forward to provide a reconciliation today.

79. We will consider the specific information needed to meet this disclosure objective at a future meeting. However, we think it is clear from the feedback received that information that enables users to understand the drivers of change in the net defined benefit liability (or asset) is useful to users and is unlikely to be onerous to provide.

Staff recommendation

80. Staff recommend that the Board:

(a) include a specific disclosure objective in IAS 19 requiring an entity to disclose information that enables users to understand the most significant assumptions used in determining the defined benefit obligation.

(b) explain that users need the information in paragraph 80(a) to assess the measurement uncertainties that are associated with the determination of the defined benefit obligation.

(c) include a specific disclosure objective in IAS 19 requiring an entity to disclose information that enables users to understand the drivers of changes in the net defined benefit liability or asset from the beginning of a reporting period to the end of that period.

(d) explain that users need the information in paragraph 80(c) to evaluate how the entity’s financial position has been affected by transactions and other events during the period that relate to its defined benefit plans, and therefore, determine whether they need to make adjustments in their analyses.

Question 6
Does the Board agree with the staff recommendation described in paragraph 80?

(g)—Understand the sensitivity of the defined benefit obligation to different actuarial assumptions

81. Users want to understand the sensitivity of the defined benefit obligation to different actuarial assumptions to determine whether to make adjustments for risk in their analyses. Specifically, they want to:

    (a) understand the range of possible values for an entity's obligation.

    (b) understand where within that range the entity's obligation falls.

    (c) understand the effect, on the obligation, of interrelationships between different assumptions.

    (d) understand the effect, on the obligation, of assumptions with non-linear effects. That is, the effect when changes in assumptions are not proportional to the resulting change in the obligation.

    (e) compare sensitivities, of different plans and, across entities.

82. Some GPF and ASAF members had concerns that meeting this user information need would be very costly. In particular, they expressed concerns about any requirement to provide a wider sensitivity analysis considering interrelationships between assumptions and a wider range of possible alternative assumptions.

Staff Analysis

83. Assumptions used in measuring the defined benefit obligation are inherently uncertain and represent entities' best estimate at the reporting date. Consequently, we think information about how changes in those assumptions could have affected the defined benefit obligation is relevant and will help users understand the degree of measurement uncertainty.

84. Staff think that the user needs described in paragraphs 81(a)-81(b) are already covered by our recommended disclosure objectives in other areas:

(a) we think the range of possible values for an entity's defined benefit obligation relates to measurement uncertainty. Consequently, we think the kind of information that would satisfy this user need will be captured by the recommended objective relating significant assumptions described in paragraph 80(a)-80(b). That is, as part of that objective, the Board could explore items of information that would require an entity to consider disclosing alternative significant assumptions reasonably possible at the reporting date that could have materially changed the defined benefit obligation. Such information will allow users to make an assessment about the range of possible values for the defined benefit obligation.

(b) we think the kind of information that would satisfy the user need for information about where within the range of possible values the entity's obligation falls will be captured by the recommended objective relating to amounts recognised in the primary financial statements described in paragraph 16.

85. However, we think the Board should consider whether it would be helpful to develop an additional disclosure objective that relates specifically to the other user needs described in paragraphs 81(c)-81(e). That is:

(a) the effect of interrelationships between different assumptions and assumptions with non-linear effects (paragraphs 86-89).

(b) comparing sensitivities across different plans and entities (paragraph 90).

Effect of interrelationships between different assumptions and assumptions with non-liner effects

86. Information about interrelationships between assumptions is important to users because—in their words: "assumptions do not change in a vacuum". Some users say that considering individual assumptions in isolation does not explain reasonably possible changes in the defined benefit obligation, at the reporting date. Furthermore, understanding both the interrelationships between assumptions

and any non-linear effects help a user to extrapolate sensitivity analysis to any set of assumptions of their choosing.

87. Staff observe that paragraph BC60 of IFRS 7 also echoes the relevance of information about interrelationships and non-linear effects in discussing the usefulness of sensitivity analysis. It states that:

> The Board acknowledged that a simple sensitivity analysis that shows a change in only one variable has limitations. For example, the analysis may not reveal non-linearities in sensitivities or the effects of interdependencies between variables.

88. We developed an example of the kinds of information that would meet user needs in this area for the joint CMAC and GPF meeting in June 2019:

(a) GPF members said the information in the example—a wider sensitivity analysis considering interrelationships between assumptions and a wider range of possible alternative assumptions— would be very costly to prepare. Members did not have any suggestions for alternative information to meet the user information need.

(b) CMAC members said that information enabling them to understand the range of possible values of the defined benefit obligation would be more useful to their analysis than the information in the example.

89. In light of this feedback, we think the Board should not develop an objective relating to the interrelationship between different assumptions and the effects of non-linear assumptions. We think this information would be unduly costly to prepare and that the most critical user information needs can be satisfied within the objective recommended about in paragraphs 80(a)-80(b)

Comparing sensitivities across different plans and entities

90. We think that if an entity provides information about the measurement uncertainties inherent in its defined benefit obligation (see the recommended disclosure objective in paragraphs 80(a)-80(b)), users will be able to compare sensitivities across different plans and different entities. Consequently, we think the Board should not develop a specific objective relating to this user need.

Staff conclusion and recommendation

91. Considering the above analysis, staff think that users' specific information needs about sensitivities are understandable and relevant. However, in light of feedback from preparers, we think the Board should consider whether specific objectives on this topic pass the cost-benefit test.

92. At the May 2019 Board meeting, a few Board members said that preparers should not be required to provide sensitivity analysis. Instead users should perform their own sensitivity analysis using information in the financial statements. Staff think that entities are in a better position than users to perform a sensitivity analysis as they have the necessary information.

93. However, we observe that sensitivity analysis is one type of information that could be used to meet overall user information needs about measurement uncertainty. We think that to place a compliance burden on preparers to deliver the kinds of detailed information that would satisfy more specific user information needs around sensitivity would not pass the cost-benefit test.

94. Therefore, on balance, we recommend that the Board does not include any specific disclosure objectives relating to sensitivity of the defined benefit obligation to different assumptions. In making this recommendation, we note that the *most* critical user information needs in this area—understanding measurement uncertainty and assessing the range of possible values for the defined benefit obligation—are captured by the recommendation in paragraphs 80(a)-80(b).

Question 7
Does the Board agree with the staff recommendation in paragraph 94?

(h)—Forecast future defined benefit obligations

95. Users want information about defined benefit plans that will enable them to forecast the defined benefit obligation into the future.

Staff analysis and recommendation

96. Users do not expect entities to directly provide information about expected future values of the defined benefit obligation in their financial statements. Instead, this information need is about equipping users with information to help them predict for themselves how the defined benefit obligation will affect the entity's economic resources in future periods.

97. Users did not highlight a specific piece of information that would enable them to do this. Instead, we think this information need tells us what users ultimately want to do with all the disclosures that an entity provides about its defined benefit plans.

98. Therefore, staff recommend that the Board does not include a specific disclosure objective in IAS 19 relating to forecasting future defined benefit obligations.

Question 8
Does the Board agree with the staff recommendation in paragraph 98?

High-level, catch-all disclosure objectives for defined benefit plans

99. Staff recommend that the Board include a high-level, catch-all disclosure objective for defined benefit plans. This is in accordance with the draft Guidance. We think that this disclosure objective should incorporate the most critical user information needs that have been identified through our outreach programme.

100. We also think the high-level disclosure objective should address disaggregation. User feedback indicates that appropriate levels of disaggregation are critical for all the information that an entity provides about its defined benefit plans. Depending on its facts and circumstances, it might be necessary for an entity to further disaggregate the information it provides by features or characteristics such as:

    (a) geographical locations.

    (b) reporting segments.

    (c) funding arrangements (e.g. wholly funded, partly funded or unfunded).

    (d) member type (e.g. active members, deferred members, pensioners).

(e) plan characteristics (e.g. post-employment medical plans, flat salary plans, final salary plans).

101. Staff think that user needs for sufficiently disaggregated information are similar to those considered in developing some recently issued Standards. Consequently, we think it would be helpful for the Board to use similar language to that used in those Standards. For example, paragraph 111 of IFRS 15 requires an entity to:

> … aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

102. Consequently, we recommend that the Board include a high-level, catch-all disclosure objective requiring an entity to:

(a) disclose information that helps users of financial statements to evaluate the risks and uncertainties associated with the entity's involvement in the defined benefit plans and to assess the effect that those plans have on the financial performance, financial position and cash flows of the entity.

(b) aggregate or disaggregate information provided to meet the specific disclosure objectives so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different features or characteristics.

Question 9
Does the Board agree with the staff recommendation in paragraph 102?