STAFF PAPER

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Project	**Disclosure Initiative: Targeted Standards-level Review of Disclosures**
Paper topic	IAS 19 Disclosure Objectives—Employee Benefits other than 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 employee benefits other than 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.

Structure of this paper

2. The paper is structured as follows:
   (a) Defined contribution plans
      (i) Background and user information needs (paragraphs 3-6)
      (ii) Staff analysis and recommendation (paragraphs 7-12)
   (b) Multi-employer plans and group plans
      (i) Background (paragraphs 13-16)
      (ii) Staff analysis and recommendations (paragraphs 17-23)
   (c) Other employee benefit plans
      (i) Background and user information needs (paragraphs 24-26)
      (ii) Staff analysis and recommendations (paragraphs 27-32)

Defined Contribution Plans

Background and user information needs

3. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a fund. The entity has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all of the employees' benefits.

4. The entity's obligation is therefore limited to the amount it agrees to contribute to the fund. The employees carry the actuarial risk and investment risk associated with the plan.

5. Users generally consider defined contribution plans to be 'harmless'. They said the risks associated with such plans—described in paragraph 4—are well understood and unlikely to need adjusting for in their analysis. Consequently, and in contrast to defined benefit plans, users do not spend a lot of time analysing information about defined contribution plans.

6. Nonetheless, users still find information about such plans useful. In particular, they want to be able to understand how any defined contribution plan has affected the primary financial statements. A few users added that they would like to understand whether the same level of contribution is expected to be made in the next reporting period.

Staff Analysis

7. Staff think that user information needs about the amounts in the primary financial statements are justified. We are aware that there has been a trend away from defined benefit plans and towards defined contribution plans. While these plans pose little risk to the entity, information about how the plans have affected the primary financial statements is especially relevant given their increasing prominence.

8. Staff observe that neither IAS 1 *Presentation of Financial Statements* nor IAS 19 specify how amounts relating to employee benefits should be presented in the primary financial statements. Therefore, we consider that any amounts that relate to defined contribution plans may not be separately identifiable in the primary

financial statements. Consequently, we think that entities should be required, in the notes, to disclose information that enable users to understand the effect of defined contribution plans on the primary financial statements.

9. Under IAS 19, an entity recognises its contribution payable as an expense and a liability (after deducting any contribution already paid). Staff think that defined contribution plans are unlikely to have a significant effect on the statement of financial position at the end of the reporting period. Consequently, we think it is appropriate for any disclosure objective to focus on users understanding the effect of those plans on the statements of financial performance and cash flows.

10. We think the Board should not require entities to provide any additional information about defined contribution plans. We note that the request for information about the future contributions came from only a few users. Furthermore, we think expected future contributions would often be similar to the amount recognised in the statement of financial performance for the current period for a defined contribution plan. Consequently, we think there is limited value in requiring entities to disclose that information.

Staff recommendation

11. Staff recommend that the Board include a high-level, catch-all disclosure objective in IAS 19 requiring an entity to disclose information that enables users to understand how defined contribution plans affected the entity's statements of financial performance and cash flows.

12. We think it is unnecessary to provide specific disclosure objectives for defined contribution plans. This is because we think our recommended high-level, catch-all disclosure objective effectively captures user information needs.

Question 1
Does the Board agree with the staff recommendation in paragraph 11?

Multi-employer plans and group plans

Background

13. Multi-employer plans are post-employment benefit plans that pool the assets of various entities that are not under common control and use those assets to provide benefits to employees of more than one entity. Multi-employer plans can be classified as defined contribution plans or defined benefit plans depending on the terms of the plan. However, where there is insufficient information for an entity to use defined benefit accounting for a *defined benefit* multi-employer plan, IAS 19 requires the entity to account for its participation in that plan *as if* it were a defined contribution plan.

14. Group plans are defined benefit plans that share risks between entities under common control, for example, a parent and its subsidiaries. Consequently, IAS 19 requires an entity to use defined benefit accounting, where there is a contractual agreement or stated policy for charging the net defined benefit cost to individual group entities. However, if there is no such agreement or policy, then IAS 19 requires that:

    (a) the net defined benefit cost is recognised by the group entity that is legally the sponsoring employer for the plan; while

    (b) the other participants in the plan recognise in profit or loss their contribution payable for the period—that is, account for their participation *as if* it were a defined contribution plan.

15. None of the users in our detailed outreach specifically mentioned multi-employer and group plans. However, one CMAC member highlighted specific items of information that would be useful for multi-employer plans.

16. The extent of disclosures required by IAS 19 today for multi-employer and group plans depends on whether an entity accounts for its participation in those plans on a defined benefit basis or on a defined contribution basis. Therefore, in this section, we consider the application of our recommended disclosure objectives for defined benefit plans and defined contribution plans to multi-employer plans and group plans.

Staff analysis and recommendations

Using defined benefit accounting

17. Staff think that if an entity accounts for its multi-employer plan or group plan as a defined benefit plan, its disclosures should be the same as for other defined benefit plans. This is because:

(a) such plans expose the entity to the same risks as other defined benefit plans; and

(b) the entity has access to sufficient information about the plan as a whole.

18. Consequently, we recommend that the Board require an entity that accounts for its multi-employer plan or group plan as a defined benefit plan to comply with the disclosure objectives for defined benefit plans.

Question 2
Does the Board agree with the staff recommendation in paragraph 18?

Using defined contribution accounting

19. If an entity accounts for its multi-employer plan as a defined contribution plan, staff recommend that the Board require the entity to comply with the disclosure objective for defined contribution plans.

20. An entity that accounts for its participation in a *defined benefit* multi-employer plan or a group plan *as if* it were a defined contribution plan is exposed to the risks associated with a defined benefit plan. We think our recommended disclosure objectives for defined contribution plans do not sufficiently address the risks inherent in such plans. This is because we have developed disclosure objectives for defined contribution plans considering user feedback that such plans are relatively 'harmless'.

21. However, we think that entities that are accounting for their defined benefit plans *as if* they were defined contribution plans are unlikely to be able to comply with all the recommended disclosure objectives for other defined benefit plans. This is because only those entities that have insufficient information to apply defined

benefit accounting are permitted to account for defined benefit plans *as if* they were defined contribution plans.

22. On balance, we think that the disclosure objectives, for *defined benefit* multi-employer plans or group plans accounted for on a defined contribution basis, should focus on:

(a) the effect that the plans had on the statement of financial performance and cash flows—that is, the recommended disclosure objective for defined contribution plans; and

(b) the economics of the defined benefit plan and the risks to which the plans expose the entity—that is, the recommended disclosure objective for defined benefit plans discussed in paragraphs 17-25 of ***Agenda Paper 11B***.

23. Consequently, staff recommend that for an entity that accounts for its share of a *defined benefit* multi-employer plan or group plan *as if* it were a defined contribution plan, the Board should:

(a) require the entity to comply with the disclosure objective for defined contribution plans (see paragraph 11); and

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

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

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

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

(c) explain in IAS 19 that users need the information in paragraph 23(b) 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 3

(a) Does the Board agree with the staff recommendation in paragraph 19?

(b) Does the Board agree with the staff recommendation in paragraph 23?

Other Employee Benefit Plans

Background and user information need

24. By other employee benefit plans, we mean:

    (a) short-term employee benefits;

    (b) termination benefits; and

    (c) other long-term employee benefits.

25. Similar to defined contribution plans, users generally consider these plans to be 'harmless'. They said the risks associated with such plans are well understood and unlikely to need adjusting for in their analysis. Consequently, and in contrast to defined benefit plans, users do not spend a lot of time analysing these plans.

26. Nonetheless, users still find information about such plans useful. In particular, they want to be able to understand how these plans have affected the primary financial statements.

Staff analysis

27. Short-term employee benefits are recognised when the employee has rendered the service and are expected to be settled within 12 months after the end of the reporting period. Similar to defined contribution plans, we think short-term employee benefits are unlikely to have a significant effect on the statement of financial position at the end of the reporting period. Therefore, staff do not think that additional information—beyond the effect on the statement of financial performance and cash flows— is relevant to users at the end of the reporting period.

28. Other long-term employee benefits and termination benefits (depending on the nature of the benefits) can affect an entity beyond the end of the current reporting period. Specifically:

    (a) termination benefits are *any* employee benefits provided in exchange for the termination of an employee's contract. These can typically be lump-sum payments but sometimes also include, for example, salary until the end of a specified notice period.

    (b) other long-term employee benefits are all employee benefits (other than post-employment benefits, short-term employee benefits and termination benefits) that will fall due 12 months after the end of the reporting period in which employees render the service. This could include long-term disability benefits.

29. Therefore, we think information about the nature of those termination benefits and other long-term employee benefits, in addition to the effect those benefits have had on the statements of financial performance, financial position and cash flows, would provide relevant information to users.

Staff recommendation

30. Staff recommend the Board include a high-level, catch-all objective in IAS 19 requiring an entity to disclose information that enables users to understand:

    (a) the nature of termination benefits and other long-term employee benefits; and

    (b) how those benefits affected the entity's statements of financial performance, financial position and cash flows.

31. Furthermore, we recommend that the Board include a high-level, catch-all disclosure objective in IAS 19 requiring an entity to disclose information that enables users to understand how short-term employee benefits affected the entity's statements of financial performance and cash flows.

32. We think it is unnecessary to provide specific disclosure objectives for these other employee benefits. This is because we think our recommended high-level, catch-

all disclosure objective effectively captures the information that could be useful to users about these benefits.

Question 4

(a) Does the Board agree with the staff recommendation in paragraph 30?

(b) Does the Board agree with the staff recommendation in paragraph 31?