

## STAFF PAPER

July 2019

## IASB® Meeting

Project	Disclosure Initiative: Targeted Standards-level Review of Disclosures		
Paper topic	Background and Summary of Staff Recommendations		
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**Purpose of this paper**

1. The purpose of this paper is to provide:
  - (a) background as to why and how the Board is amending the disclosure section in IAS 19 *Employee Benefits*; and
  - (b) a summary of the staff recommendations on amendments to the disclosure objectives in IAS 19.
2. Agenda Papers 11B and 11C present staff analysis and recommendations on amendments to the disclosure objectives for defined benefit plans and employee benefits other than defined benefit plans, respectively. These papers are the first staff analysis papers about amendments to the disclosure section in IAS 19. We plan to bring staff analysis on items of information that could be used to meet the disclosure objectives recommended in those papers to a future meeting.

**Structure of this paper**

3. The paper is structured as follows:
  - (a) Project background (paragraphs 4-5)
  - (b) Feedback received and summary of staff's approach to developing recommendations (paragraphs 6-13)
  - (c) Summary of staff recommendations (paragraphs 14-22)

## Project background

4. During May-July 2018, the Board developed draft Guidance for the Board to use when developing and drafting disclosure objectives and requirements in future (draft Guidance). Applying Step 1 of the draft Guidance, the Board has tentatively decided to:
  - (a) use specific disclosure objectives to help preparers exercise effective judgement about what to disclose. Such objectives would explain *why* particular information is useful to primary users of the financial statements (users). These specific disclosure objective(s) will be supplemented by items of information that an entity could disclose in order to meet those objectives.
  - (b) use high-level catch-all disclosure objectives to prompt entities to consider as a whole the disclosure relating to a topic and whether the information provided meets overall user information needs for that topic.
5. At its July 2018 meeting, the Board selected IAS 19 as one of two Standards on which to test the draft Guidance.

## Feedback received and summary of staff's approach to developing recommendations

6. At the May 2019 meeting, the Board discussed feedback from stakeholders and input received from the IFRS Taxonomy team about employee benefit disclosures (see [May 2019 Agenda Paper 11B](#)). We received a strong message from users that today's employee benefit disclosures often *do not* meet their primary objectives.
7. Users are particularly interested in better information about the expected effects of employee benefit plans on cash flows compared to what they receive today. Many users also support improvements in the way in which other disclosures, for example, information about the effect of the plans on the primary financial statements, are communicated in the financial statements.

8. Preparers tell us that many of the disclosures required today by IAS 19 are difficult and onerous to prepare. Some preparers understand user needs for better information about cash flows and would support disclosure of such information.
9. Considering the feedback received, the Board decided to explore whether disclosure of new or different information about employee benefits would more effectively meet the needs of stakeholders than today’s disclosures (see [May 2019 Agenda Paper 11D](#)). The Board tentatively decided that the first step should be to develop and clearly articulate disclosure objectives—Agenda papers 11B and 11C for this meeting discuss those disclosure objectives.
10. After completing that step, the Board will proceed with:
  - (a) developing proposals for items of information that could be used to effectively meet those objectives; and
  - (b) refining those items of information by comparing them to existing IAS 19 disclosure requirements.

The staff will bring analysis on these subsequent steps to future Board meetings.

***Summary of staff’s approach to developing recommendations***

11. At the May 2019 Board meeting, a few Board members asked the staff to consider the following when analysing the feedback received:
  - (a) whether providing particular types of information is within the scope of financial statements. This primarily related to information about expected effects of a defined benefit plan on future cash flows and information about alternative defined benefit plan valuations.
  - (b) the respective roles of preparers and users of financial statements. Some Board members were concerned that some of the information requested by users would require preparers to perform analysis that would be more appropriately performed by users themselves. This primarily related to information about the sensitivity of the defined benefit obligation.
12. In Agenda Papers 11B and 11C, we have analysed each user information need and made a recommendation as to whether, and how that information need should be

included as a disclosure objective in IAS 19. Our analysis includes consideration of:

- (a) user feedback about how critical the information need is and why.
- (b) other stakeholder feedback, for example about the costs of preparing the information that might satisfy user needs. As discussed in paragraph 10, we will bring detailed staff analysis of the information that might satisfy user needs to future Board meetings. However, we think it is important to consider costs at a high level when developing the disclosure objectives. This is because, applying the draft Guidance, entities will be *required* to comply with the disclosure objectives in the Standard.
- (c) whether general purpose financial reports are the appropriate vehicle to address each user information need considering the guidance in the Conceptual Framework.

13. Furthermore, our analysis spans all the types of employee benefits covered by IAS 19:

- (a) post-employment benefit plans:
  - (i) defined benefit plans.
  - (ii) defined contribution plans.
  - (iii) multi-employer plans and group plans.
- (b) other employee benefits. These are short-term employee benefits, termination benefits and other long-term benefits.

### **Summary of staff recommendations**

14. This section summarises:

- (a) the recommendations in Agenda Paper 11B for defined benefit plans (paragraphs 15-17);
- (b) the recommendations in Agenda Paper 11C for employee benefits other than defined benefit plans (paragraphs 18-22).

**Defined benefit plans**

15. Staff recommend that the Board include a high-level, catch-all disclosure objective in IAS 19 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.
16. Furthermore, staff recommend that the Board include the following specific disclosure objectives in IAS 19:

A	<p>An entity shall 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.</p> <p>Users need such information to:</p> <ul style="list-style-type: none"> <li>a. navigate subsequent detailed pension disclosure information and reconcile it to the primary financial statements; and</li> <li>b. identify amounts to include or adjust for in their own analysis.</li> </ul>
B	<p>An entity shall disclose information that enables users to understand the:</p> <ul style="list-style-type: none"> <li>a. nature of the benefits provided by its defined benefit plan(s);</li> <li>b. nature and extent of the risks, in particular the investment risks to which those plan(s) expose the entity; and</li> <li>c. strategies that the entity has in place to manage the plan(s) and the associated risks.</li> </ul> <p>Users need such information to assess how the entity intends to deliver the benefits promised to members to its defined benefit plan(s) and evaluate how the risks associated with those plan(s) might affect the entity in future.</p>
C	<p>An entity shall 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.</p>

	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 effectively respond to capital needs in other areas, for example, its ability to pay dividends.
D	An entity shall 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.
E	An entity shall disclose information that enables users to understand the most significant assumptions used in determining the defined benefit obligation. Users need such information to assess the measurement uncertainties that are associated with the determination of the defined benefit obligation.
F	An entity shall 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. Users need such information 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.

17. We recommend that the Board does not develop disclosure objectives to explicitly address user information needs about:
- (a) alternative defined benefit plan valuations to that required by IAS 19. We do not think it would be appropriate for the Board to require such information in the financial statements.
  - (b) sensitivity of the defined benefit obligation to different assumptions. We think the most critical underlying user needs in this area are captured by objective E described in paragraph 16.
  - (c) forecasting future defined benefit obligations. We think developing a specific objective on this user need would risk requiring preparers to perform user analysis for them. We think the underlying need in this area is addressed by *all* the disclosure objectives described in paragraph 16.

**Defined contribution plans**

18. 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.

**Multi-employer and group plans**

19. Staff recommend that the Board require:
- (a) an entity that accounts for its multi-employer plan or a group plan as a defined benefit plan to comply with the disclosure objectives for defined benefit plans in paragraphs 15-16.
  - (b) an entity that accounts for its multi-employer plan as a defined contribution plan to comply with the disclosure objective for defined contribution plans in paragraph 18.
20. 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 to, staff recommend that the Board:
- (a) require the entity to comply with the disclosure objective for defined contribution plans in paragraph 18.
  - (b) require the entity to comply with a specific disclosure objective 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 20(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.

***Other employee benefits***

- 21. 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.
- 22. Finally, 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.