Project **Post-employment Benefits**

Topic **Defined benefit plan assets—Fair value disclosures**

Objective

1. The objective of this paper is to summarise the fair value disclosures proposed in the forthcoming Exposure Draft *Fair Value Measurements* (fair value ED) that will affect plan assets as described in IAS 19 *Employee Benefits*.

2. This paper will not discuss the proposed measurement guidance provided in the fair value ED.

Does the fair value ED apply to IAS 19?

3. Yes. IAS 19 requires plan assets to be measured at fair value, therefore the measurement guidance and the disclosures in the [draft] IFRS will apply to plan assets.

How will the proposals in the fair value ED affect plan assets in IAS 19?

4. The fair value measurement project's objective is to create a single source of fair value measurement guidance. This project will also introduce disclosures that are required for all assets and liabilities measured at fair value in addition to existing disclosures in IFRSs.

5. This means that the current measurement guidance in paragraph 102 in IAS 19 will be deleted and entities will have to refer to the fair value measurement guidance in the [draft] IFRS. The current disclosure requirements in IAS 19 will not be amended by this project (refer to the appendix of this paper for the current disclosure requirements for plan assets). The Board's project on post-employment benefits will deal with disclosures required in IAS 19.

Proposed disclosures

Fair value ED

6. The following is an extract of the proposed disclosures in the fair value ED:

56 For assets and liabilities measured at fair value, an entity shall disclose information that enables users of its financial statements to assess the methods and inputs used to develop those measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

57 To meet the objectives in paragraph 56, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, how much aggregation or disaggregation to undertake, and whether users need any additional information to evaluate the quantitative information disclosed. At a minimum, an entity shall disclose the following information for each class of assets and liabilities:

(a) the fair value measurement at the end of the reporting period.

(b) the level of the fair value hierarchy into which the fair value measurements are categorised in their entirety (Level 1, 2 or 3) .

(c) for assets and liabilities held at the reporting date, any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

(d) the methods and the inputs used in the fair value measurement and the information used to develop those inputs. If there has been a change in valuation technique (eg changing from a market approach to an income approach), the entity shall disclose that change, the reasons for making it, and its effect on the fair value measurement.

(e) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);

(ii) total gains or losses for the period recognised in other comprehensive income;

(iii) purchases, sales, issues and settlements (each of those types of movement disclosed separately); and

(iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(f) the amount of the total gains or losses for the period in subparagraph (e)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the reporting date and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).

(g) for fair value measurements in Level 3 of the fair value hierarchy, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. An entity shall disclose how it calculated those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

58 For each class of assets and liabilities not measured at fair value in the statement of financial position, but for which the fair value is disclosed, an entity shall disclose the fair value by the level of the fair value hierarchy.

59 For each class of liability measured at fair value after initial recognition, an entity shall disclose:

(a) the amount of change, during the period and cumulatively, in the fair value of the liability that is attributable to changes in the non-performance risk of that liability, and the reasons for that change.

(b) how the entity estimated the amount in paragraph 59(a) attributable to changes in the non-performance risk of the liability.

(c) the difference between the liability's carrying amount and the amount of economic benefits the entity is required to sacrifice to satisfy the obligation (eg for a contractual liability, this would be the amount the entity is contractually required to pay to the holder of the obligation).

60 If an asset is used together with other assets and its highest and best use differs from its current use, an entity shall disclose, by class of asset:

(a) the value of the assets assuming their current use (ie the amount that would be their fair value if the current use were the highest and best use);

(b) the amount by which the fair value of the assets differs from their value in their current use (ie the incremental value of the asset group); and

(c) the reason(s) the assets are being used in a manner that differs from their highest and best use.

61 An entity shall present the quantitative disclosures required by this [draft] IFRS in a tabular format unless another format is more appropriate.

Proposed consequential amendment

7. The staff has identified two disclosure requirements that might be problematic for preparers to apply to plan assets. Paragraph 57 of the fair value ED requires disclosures to be made for each class of asset. Paragraph 120A(j) of IAS 19 requires a minimum level of disaggregation. It might be unclear whether the fair value ED will require a different level of disaggregation.

8. Paragraph 57(e)(i) and (ii) require an entity to provide a description of where in the statement of comprehensive income or separate income statement it has presented gains or losses arising from Level 3 measurements. If entities elect to apply paragraph 92 of IAS 19, it will be impossible to describe where in the statement of comprehensive income or separate income statement some of the gain or loss is presented, because some of it will not be presented anywhere. And it is not possible to

determine how much of the gain/loss on plan assets has been recognised and how much has not, because the deferred recognition applies to the combined actuarial gains and losses on the plan assets and plan liabilities.

9. For entities to be able to comply with the proposed disclosures in the fair value ED, IAS 19 had to be amended.

10. The staff propose to add paragraph 120A(ea) as follows:

> …
>
> (ea) the disclosures required by [draft] IFRS xx for each category of plan assets disclosed in compliance with the requirement in paragraph 120A(j) except as follows. An entity adopting the deferred recognition model of recognising some changes in the value of plan assets and in the defined benefit obligation in periods after the period in which they occur, may disclose gains or losses on plan assets without distinguishing amounts recognised in profit or loss from amounts recognised in other comprehensive income as required by paragraph xx of [draft] IFRS xx.
>
> …

Example of the proposed fair value disclosure

11. The following is an extract of what the proposed disclosure requirements might look like for a typical company:

Assets measured at fair value

IE1 For assets and liabilities measured at fair value during the period, the [draft] IFRS requires quantitative disclosures about the fair value measurements for each class of assets and liabilities. An entity might disclose the following for assets to comply with paragraph 57.

Assets measured at fair value

		Fair value measurement at end of the reporting period using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Description	31 Dec 20X2	CU million	CU million	CU million
Financial assets at fair value through profit or loss				
Trading securities	100	40	55	5
Trading derivatives	29	17	20	2
Available-for-sale financial assets				
Equity investments	75	30	40	5
Investment properties				
Land	40	-	25	15
Buildings	15	-	-	15
Total	259	87	140	42

(Note: For liabilities, a similar table shall be presented.)

Assets measured at fair value for which any significant input is not based on observable market data (Level 3)

IE2 For assets and liabilities measured at fair value for which any significant input is not based on observable market data (Level 3) during the period, this [draft] IFRS requires a reconciliation from beginning to ending balances for each class of assets and liabilities. An entity might disclose the following for assets to comply with paragraph 57(e)

Assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3)

	Fair value measurement at the end of the reporting period					
	Financial assets at fair value through profit or loss		**Available-for-sale financial assets**	**Investment properties**		**Total**
	Trading securities	Trading derivatives	Equity investments	Land	Buildings	
	CU million	CU million	CU million	CU million	CU million	CU million
Opening balance	6	5	4	10	12	37
Total gains or losses						
in profit or loss	(2)	(2)[1]	-	5	3	4
in other comprehensive income	-	-	(1)	-	-	(1)
Purchases	1	2	2	-	-	5
Issuances	-	-	-	-	-	-
Settlements	-	(1)	-	-	-	(1)
Transfers into or out of Level 3	-	(2)	-	-	-	(2)
Closing balance	5	2	5	15	15	42
Gains or losses in profit or loss for assets held at the end of the reporting period	(1)	(1)	-	5	3	6

(Note: For liabilities, a similar table shall be presented.)

[1] Losses of CU 0,05 that have been reported in Level 3 are offset by gains or losses attributable to instruments classified in Level 1 or Level 2 of the fair value hierarchy.

Gains and losses in profit or loss for the period (above) are reported in trading income and in other income as follows:

	Trading income CU million	Other income CU million
Total gains or losses included in profit or loss for the period	(4)	8
Gains or losses in profit or loss for assets held at the end of the reporting period	(2)	8
(Note: For liabilities, a similar table shall be presented.)		

Appendix

A1. Disclosures currently required by IAS 19 for plan assets:

120A An entity shall disclose the following information about defined benefit plans:

…

(e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 104A showing separately, if applicable, the effects during the period attributable to each of the following:

(i) expected return on plan assets,

(ii) actuarial gains and losses,

(iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,

(iv) contributions by the employer,

(v) contributions by plan participants,

(vi) benefits paid,

(vii) business combinations and

(viii) settlements.

…

(j) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.

(k) the amounts included in the fair value of plan assets for:

(i) each category of the entity's own financial instruments; and

(ii) any property occupied by, or other assets used by, the entity.