Project **Post-employment Benefits**

Topic **Preliminary Views on Amendments to IAS 19 *Employee Benefits*—Analysis on disclosure comments**

Introduction

1. The purpose of this paper is to provide an analysis of the comments on the discussion paper[1], so that Working Group members are informed of the constituents' views in discussing the disclosure issues at this meeting. Especially, this paper discusses the following two points:

   (a) whether more disclosures should be added to existing requirements

   (b) if so, which information would be useful for financial statements users.

2. The Board's discussion paper Preliminary Views on Amendments to IAS 19 *Employee Benefits* indicated its intention to consider best practice disclosures in various jurisdictions as part of a review of disclosure requirements about post-employment benefit plans, and asked constituents what disclosures the Board should consider in the review process. We received a total of 150 comment letters, and 71 of them discussed disclosure issues.

[1] Published in March 2008, with comments to be submitted by September 2008

Overview of comments

Views on the volume of disclosures

3. Some respondents expressed concerns about requiring further disclosure requirements. They argued that disclosures required by IAS 19 are currently excessive. Hence, more information would make the total package of disclosures confusing, less understandable and less transparent. In particular, some of them were concerned that it would be problematic for large multi-national companies that have many varied plans across a number of countries.

4. Some of these respondents suggested that the Board should reduce the disclosure requirements with the objective of being 'concise'. They noted that it is necessary to draw the attention of users to key information rather than to confuse users with excessive information. Specifically, they proposed the following changes:

    (a) sensible aggregation of disclosures about many individual plans

    (b) replacing the two reconciliations required by IAS 19 with a single reconciliation from the opening defined benefit liability to the closing defined benefit liability.[2]

5. Actuarial professionals noted that assets and liabilities arising from post-employment benefit plans are subject to more disclosures than other long-term assets and liabilities. They argued that there is no reasonable basis for this. Therefore, they suggested that the Board should make sure that disclosure principles should be applied consistently across all significant long-term assets and liabilities.

6. However, the majority of respondents commented that the Board should require additional disclosure, because they believed that the Board should provide users with better information in order to help users understand the impact of liabilities and assets arising from post-employment benefit plans. Their comments varied in their recommendations as to additional disclosure requirements. In the next

[2] IAS 19 requires the reconciliation of the defined benefit obligation and plan assets, respectively

section, this paper discusses various recommendations for additional disclosure requirements set out in the comment letters.

Recommended additional disclosures

Plan Liabilities

Mortality Rates

7. The discussion paper included an explicit requirement to disclose assumptions about mortality rates as an example of potential additional disclosures. Many respondents supported the explicit requirement to disclose information about mortality rates. Some respondents (including a preparer, an auditor and actuarial professionals) argued, in support of this view, that the disclosure of mortality rates is broadly regarded as a key assumption[3] and is already required under the materiality requirements of paragraph 120A(n)(vi) of IAS 19.

8. Actuarial professionals noted that references to mortality rates in actuarial tables may not be understandable except to actuaries. Rather, they suggested that the Board should require the disclosure of standard metrics eg life expectancy for a 65 year old retiring now or in 10, 20, 30 years time.

Plan Assets

Expected return on assets

9. The discussion paper set out the preliminary view to not separate the return on assets into an expected return and an actuarial gain or loss. However, many respondents did not agree with that preliminary view. Furthermore, some suggested that the Board should require further information on the expected return. For example,:

   (a) weighted average basis for each major category of plan assets rather than overall basis

   (b) more precise description of how the expected return rate is derived

[3] For example, a major banking group mentioned in its comment letter that it voluntarily provides information about mortality rates.

(c) narrative assessment of how the liabilities will be met through the return on assets.

Both Plan Liabilities and Assets

Sensitivity Analysis[4]

10. Many respondents suggested that a sensitivity analysis be required. They observed that one of the reasons for the difficulties that users face in understanding the information about post-employment benefit plans is the fact that changes in actuarial assumptions used in measurement affect profit and losses in subsequent years. Therefore, they believe that a sensitivity analysis would be informative and beneficial in helping users to understand possible effects of changes in significant assumptions of the defined benefit obligations.

11. In terms of sensitivity analysis, respondents made the following specific suggestions:

(a) to show both separately and cumulatively the impact of specified changes in the core assumptions

(b) to show the effects of changes in the expected return rates

(c) to focus on the disclosure for the discount rate and the inflation assumption eg 1% decrease/increase in the discount rate and the inflation assumption[5]

(d) that the requirements should based on similar requirements in IFRS 7 *Financial Instruments: Disclosures*.[6]

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[4] It might be alleged that sensitivity analysis covers only the measurement of defined benefit obligation. However, as noted in paragraph 11, it can be also linked to plan assets in terms of expected return rates.

[5] This is based on the assertion that the effects of changes in the discount rate and inflation assumption generally offset each other (to some extent) and therefore the net effect might be the most meaningful.

[6] The paragraph 40 of IFRS 7 states that:

Unless an entity complies with paragraph 41, it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by *changes in the relevant risk variable that were reasonably possible at that date*[Emphasis added];

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

Risk

12. Many respondents also noted that the Board needs to enhance the disclosure requirements about the risk inherent in the post-employment benefit promise and the risk associated with the assets held to fund the benefit. Whilst they emphasized the importance of the risk-related information, most of them did not provide any specific example.

13. However, a professional analysts association provided detailed examples as follows:

    (a) exposures related to asset/liability duration and cash flow mismatch
    (b) credit and market risks associated with the underlying assets
    (c) information regarding extreme risk factors, including asset concentrations and asset volatility relative to the market

    They noted that a critical issue for investors is developing a complete understanding of the degree of mismatch risk being undertaken and whether the net expected return on the overall risk exposure is adequate.

14. In addition, a national standard-setter emphasized need for the information that enables financial statement users to evaluate the nature and extent of risks arising from 'variable benefit plans'[7]. (This arose as a consequence of the recommendation that variable benefit plans should be accounted for as defined contribution plans subject to certain conditions.) Hence, they recommended the following disclosures:

    (a) the relevant elements of the funding agreement with the pension fund
    (b) to the extent that a surplus or deficit in the plan may affect the amount of future contributions
        (i) any available information about that surplus or deficit
        (ii) the basis used to determine that surplus or deficit

[7] The respondent defined variable benefit plans as 'pension plans in which the actuarial and investment risk associated with the employee benefit plan are predominantly subscribed by the plan participants (employees, former employees and retirees) and only limitedly by the sponsoring entity'. The respondent noted that variable benefit plans are classified as defined benefit plans under the current requirements of IAS 19.

(iii) the implications, if any, for the entity.[8]

Multi-employer plans

15. There were no specific comments on the disclosures for multi-employer plans.

Other disclosures recommended

16. Besides the disclosure recommendations stated above, there were other suggestions for additional disclosures as set out in the table below.

Plan Liabilities	Plan Assets	Others
- demographic assumptions[9] - liability breakdown between vested and unvested benefits - alternative measurement, such as buyout amount - timing of benefit payment cash flow	- investment strategies adopted - funding obligations of the entity - disclosure details similar to those provided by mutual funds to their investors - additional information on the fair value of plan assets required by FSP FAS 132(R)-1	- to enhance explanations of circumstances specific to the entity - information about the risk sharing plan between employers and employees - information about the financial position of the pension fund

Other issues

Reference to ASB Reporting Statement[10] and PAAinE Discussion Paper[11]

17. Some respondents supported the ASB Reporting Statement and PAAinE

[8] These disclosures are the same as those required for multi-employer plans, when sufficient information is not available to use defined benefit accounting for them. (see the paragraph 30(c) of IAS 19)
[9] These are not limited to mortality rates, but extended to turnover rates, early retirement rates and so on.
[10] 'Retirement Benefits – Disclosures' (January 2007). This sets out additional disclosures that complement the disclosure requirements in FRS 17.
[11] 'The Financial Reporting of Pensions' (January 2008). PAAinE is short for 'Pro-active Accounting Activities in Europe', which is a partnership between the European Financial Reporting Advisory Group (EFRAG) and European standard-setters.

Discussion Paper[12], and suggested that the Board should incorporate many of those recommended disclosures in IAS 19. Their support is based on the belief that the ASB Reporting Statement and PAAinE Discussion Paper contain disclosures that would enable financial statement users to understand the 'risks and rewards arising from a post-employment benefit plan'.

[12] 7 and 4 of 71 comment letters respectively supported ASB Reporting Statement and PAAinE Discussion Paper.