Project **Post-employment Benefits**

Topic **Proposed Disclosures from the PAAinE discussion paper *The financial reporting of pensions***

Objective

1. The objective of this paper is to provide a summary of the disclosures proposed in PAAinE discussion paper *The Financial Reporting of Pensions* to stimulate discussion on the questions set out in the rest of the agenda papers for this meeting. A copy of this summary was sent to working group members in March 2009 as part of the questionnaire on disclosures.

Background

2. PAAinE published the discussion paper The Financial Reporting of Pensions in January 2008 (The discussion paper is available at http://www.efrag.org/projects/detail.asp?id=70 or from staff). The objective of the discussion paper is to fundamentally review the accounting for pensions.

Proposed disclosures

3. The following is an extract of Appendix A Summary of proposed disclosures in the financial statements of the PAAinE discussion paper. The PAAinE discussion paper proposes three disclosure objectives (highlighted in **bold**) and disclosures to fulfil this objectives. Proposed PAAinE disclosure that are additional to the disclosures in IAS 19 are also highlighted (these additional disclosures are in italics below).

4. The PAAinE discussion paper proposes that the disclosure objectives and the proposed disclosures set out below be required for both defined benefit plans and defined contribution plans.

Appendix A Extract of PAAinE discussion paper *Summary of proposed disclosures in the financial statements*

***Disclosures should provide information that explains the risks and rewards arising from the provision of pension benefits,* having regard to the materiality of the amounts involved.**

(An entity is required to provide only disclosures that are relevant to the provision of its pension arrangements).

(1) Financial statements contain adequate disclosure of the cost of providing pension benefits and any related gains, losses, assets and liabilities

1. A reconciliation from the opening position for pension liabilities and the assets held to fund those liabilities to the closing position for pension liabilities and the assets held to fund those liabilities. The changes in assets and liabilities should be categorised according to the elements that give rise to the movements in those assets and liabilities.

2. As part of the reconciliation, or as a separate note, a reconciliation of total movement in the pension liabilities and the assets held to fund those liabilities to each of the primary financial statements. This disclosure should reconcile the surplus/deficit in the fund to the balance sheet position*, and the total cost reported in the statement of comprehensive income.*

3. The principal assumptions that are used to calculated pension liabilities as at the balance sheet date.

   This should include details of the:

   (i) discount rate;

   (ii) mortality rate – *expressed at the number of year post retirement it is anticipated pension will be paid to members of the scheme;*

   (iii) increases in salaries *and general inflation;* and

   (iv) any other material assumption.

   Assumptions should be disclosed in a clear and effective manner.

4. *A sensitivity analysis that shows the affect of changes in the principal assumptions used for the measurement of the pension liability. As an alternative a user may provide a value-as-risk or similar analysis to that of the sensitivity analysis.*[1]

5. *Alternative measures of pension liabilities, where available*[2]*. (This may be in the management commentary).*

(2) Users of financial statements are able to obtain a clear view of the risks and rewards arising from liabilities to pay pension benefits and the assets held to fund those benefits

6. *An entity should describe the nature of its liabilities arising from the provision of pensions to employees, this includes arrangements where the assets and liabilities are held in a separate plan.*

7. *The financial statements should disclose adequate information that enables the users of the financial statements to understand the relationship between the reporting entity and the trustees/(managers) a separate plan, fund or other arrangement. The information disclosed should allow the user to understand who controls the separate plan, and any 'unusual powers' vested in trustees/(plan managers).*

8. *The financial statements should provide information about the nature of the pension liability, including details of:*

   - *active employees;*
   - *deferred members; and*
   - *pensioners.*

9. *The financial statements should disclose information that permits a user to understand the projected cash flows on which the present value of liabilities is estimated. This information can be presented in graphical form.*

[1] IAS 19 requires a limited sensitivity analysis for medical cost trend.
[2] For example, disclosure of the ABO where the PBO is used to measure pension liabilities, buy-out amounts.

10. The financial statements should disclose information about the assets held to fund pension liabilities, this should include:

    (i) *a description of the investment strategies, which gives rise to the allocation of assets held;*

    (ii) an analysis of the assets held to fund pension liabilities by category, this shall include (but is not restricted to) equity instruments, debt, property; and

    (ii) *where assets are not traded in active markets, details of the valuation technique used.*

12. *For each type of risk arising from financial instruments held to fund pension liabilities, an entity should disclose:*

    (i) the exposure to risk and how they arise;

    (ii) the objectives, policies and processes undertaken by the pension plan or the entity for managing the risk and the methods used to measure the risk; and

    (iii) any changes in (a) and (b) from the previous period.[3]

    An entity may disclose a sensitivity analysis, such as value-at-risk, for types of risks to which a defined benefit scheme is exposed. Where an entity discloses such sensitivity analysis it should also disclose the method and assumptions used in preparing this analysis and any changes from the previous period in the methods and assumptions used.

[3] Consistent with IFRS 7 *Financial Instruments: Disclosures*.