



Project **Post-employment Benefits**

Topic **Disclosures—Objectives**

Introduction

1. The objective of this paper is to obtain the working group's views on the objective(s) of post-employment benefit disclosures.
2. Determining the objectives of post-employment benefits disclosures will assist in the development of principle(s) for post-employment benefits disclosures.
3. The rest of the paper below sets out various views on the objective(s) of post-employment benefit disclosures to stimulate discussion.

IAS 19

4. IAS 19 currently has the following objective for defined benefit plans disclosures.

120 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

Share-based payments

5. Some note that post-employment benefits share similarities with share-based payments because both are forms of deferred employee compensation. The following is an extract of the disclosure principles in IFRS 2 *Share-based Payment*:

44 An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share based payment arrangements that existed during the period.

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This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB working group identified in the header of this paper.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

The meeting at which this paper is discussed is a public meeting but it is not a decision-making meeting of the Board. Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

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46 An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.

...

50 An entity shall disclose information that enables users of the financial statements to understand the effect of share based payment transactions on the entity's profit or loss for the period and on its financial position.

Financial instruments

6. Others argue that the disclosure objectives in IFRS 7 *Financial Instruments: Disclosures* are also useful for pensions because pensions are exposed to similar types of risks as financial liabilities. Also, plan assets may include financial instruments. The following is an extract of the disclosure principles in IFRS 7.

- 1 The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:
 - (a) the significance of financial instruments for the entity's financial position and performance; and
 - (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

7. (The objectives for the disclosures on insurance contracts in IFRS 4 *Insurance Contracts* are similar to the objectives for financial instruments above.)

ASB Reporting Statement Retirement Benefits-Disclosures

8. In January 2007, the UK Accounting Standards Board published Reporting Statement *Retirement Benefits—Disclosures*, which is designed to promote greater transparency in financial reporting for defined benefit pension schemes (DB) (see Agenda item 2E).¹
9. The Reporting Statement sets out six principles to be considered when providing disclosures for DB schemes in the financial statements:

¹ The ASB Reporting Statement is available from staff. The Reporting Statement is a best-practice statement and is not mandatory. The Reporting Statement is designed to complement the disclosures required in FRS-17 *Retirement Benefits*.

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- (a) the relationship between the entity and trustees (managers) of the defined benefit scheme
 - (b) the principal assumptions used to measure scheme liabilities
 - (c) the sensitivity of the principal assumptions used to measure the scheme liabilities
 - (d) how the liabilities arising from defined benefit schemes are measured
 - (e) the future funding obligations in relation to defined benefit scheme
 - (f) the nature and extent of the risks arising from financial instruments held by the defined benefit scheme.
10. These principles are aimed to assist the users of financial statements in understanding the cost, risk and rewards, and funding obligations, arising from DB schemes.

PAAinE discussion paper The Financial Reporting of Pensions

11. PAAinE published the discussion paper *The Financial Reporting of Pensions* in January 2008². The following is the PAAinE discussion paper objectives for pension disclosures:

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.

- (a) Financial statements contain adequate disclosure of the cost of providing pension benefits and any related gains, losses, assets and liabilities.
- (b) 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.
- (c) That the funding obligations of an entity, in relation to liabilities to pay pension benefits, are clearly identified.

² The PAAinE 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.

Feedback from ARG

12. At the Analysts Representative Group (ARG) February 2009, the ARG were asked their opinion on the objectives for post-employment benefit disclosures. The various views of the ARG are set out below:

- (a) To facilitate a user's understanding of the timing of future cash flows. The disclosures should also allow a user to understand the dynamics of the plan assets and liability and its impact on the entity's weighted average cost of capital and equity valuation.
- (b) To allow users to understand the risks that management are running in their asset allocation strategy and the scale of the defined benefits promises that they have made, with a clear indication of what the present value of that liability amounts to.
- (c) To provide transparency on the asset coverage of liabilities, particularly related to defined benefits.

Preliminary feedback from the EBWG

13. A questionnaire on disclosures was also circulated to working group members in March. EBWG members who responded to that questionnaire expressed the following views on the appropriate objective(s) for post-employment benefits disclosures:

- (a) 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.
- (b) To provide sufficient information for a user to understand the financial risks associated with the maintenance of the plan, and a sense of how future expenses and cash requirements are likely to change assuming no environmental changes.
- (c) To give clear and transparent information, in terms of nature, implicit risk and materiality, on the pension obligation and pension plan assets/reimbursement rights.
- (d) To give the users a faithful picture of the impact of providing employee benefits on the reporting company's financial position.
- (e) To provide transparency on asset coverage of liabilities, particularly related to defined benefits.
- (f) To provide information on the costs (and other related gains and losses) of the defined benefit plans.

Discussion Questions

1. What are the objective(s) of post-employment benefits disclosures?

14. Some respondents to the discussion paper Preliminary Views on Amendments to IAS 19 *Employee Benefits* do not think that there should be different disclosures for post-employment benefits (ie the same disclosures for long-term liabilities should apply to pension liabilities).

Discussion Questions

2. Are the objective(s) of disclosures on post-employment benefits liabilities different from other types of long-term liabilities?
3. Are the objective(s) of disclosures on post-employment benefits plan assets different from other types of plan assets?