IASB Meeting | Agenda reference | **5C**

Staff Paper | Date | **July, 2009**

Project **Post-employment Benefits**

Topic **Disclosures about defined benefit plans — the complete package**

Purpose of this paper

1. This paper presents a complete set of disclosure proposals for defined benefit plans, based on the Board's previous decisions.

Background

2. At the May 2009 meeting, the Board discussed appropriate disclosures for defined benefit plans to be proposed in the forthcoming exposure draft of amendments to IAS 19. The Board tentatively decided to align the disclosure requirements for post-employment benefits with the requirements in IFRS 4 *Insurance Contracts* and IFRS 7 *Financial Instruments: Disclosures*. Appendix A contains a detailed list of the specific decisions made at that meeting.

Recommendations

3. The staff recommends that the disclosures set out in paragraphs 12-32 are included in the forthcoming exposure draft of amendments to IAS 19.

Aligning with IFRS 4 and IFRS 7

4. We considered applying the requirements of IFRS 7 and IFRS 4 in developing the disclosures presented in the May 2009 meeting. However, as discussed at that meeting, the staff restructured and redrafted the proposed disclosures discussed in

May 2009 meeting to align them further with IFRS 7 and IFRS 4. A detailed comparison of the requirements of IFRS 7, IFRS 4 and the proposed disclosures is set out in Appendix B.

5. The staff would like to discuss the issue of the interaction of different risks which arose from the Board's discussion at its May 2009 meeting.

6. If the Board wish to discuss other matters, please could they let the staff know before the meeting. Also, please could the Board give any drafting points to the staff outside the meeting.

Interaction of risks

7. At the May 2009 meeting, the Board requested the staff clarify the interaction of liquidity risk and risks arising from plan assets.

8. IFRS 7 defines liquidity risk for financial liabilities as follows:

> The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

It requires the following disclosures:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.

(c) a description of how it manages the liquidity risk inherent in (a) and (b).

9. For entities with unfunded plans, that definition can be applied directly to the defined benefit obligation. The only change needed is to replace the phrase 'contractual' with 'expected' because the payments under the defined benefit obligation do not have specified fixed maturity dates; they depend on retirement and mortality. (This is similar to the approach taken in IFRS 4)

10. For entities with funded plans, plan assets are held to fund part or all of the employee benefit obligations. The entity's obligation to the plan is to fund any deficit in the plan, not to meet directly the payments required under the defined benefit obligation. So, in principle, the liquidity risk relates to potential difficulty

in meeting demands for contributions to the plan. That risk is affected by the risks relating to the plan assets. The staff thinks that it would be too costly and difficult to require disclosure of the effect of those asset related risks on the liquidity risk associated with the net surplus or deficit in the plan. Therefore, the staff proposes that:

(a) the maturity analysis required by IFRS 7 paragraph 39 should apply to the defined benefit obligation, not the net surplus or deficit.

(b) there should be separate disclosures of the risks associated with the plan assets (see paragraph 28).

(c) entities with funded defined benefit plans comply in part with the IFRS 7 paragraph 39(c) disclosure of how the entity manages liquidity risk by disclosing a narrative description of investment strategies for plan assets, including any asset-liability matching strategies to (see paragraph 28(b)).

Proposed disclosures

11. The following are the proposed disclosures discussed in the May 2009 meeting restructured and redrafted to be more consistent with IFRS 4 and IFRS 7. The references in square brackets indicate equivalent paragraphs in current IFRSs. They are not intended to be reproduced in the exposure draft.

Questions
Does the Board agree that the proposed disclosures in paragraph 12-32 are included in the forthcoming exposure draft of amendments to IAS 19?

Disclosures for defined benefit plans

Disclosure principles

12. An entity shall disclose information that:

(a) **identifies and explains the amounts in its financial statements arising from defined benefit plans (see paragraphs 15-22).**

(b) **enables users of its financial statements to evaluate the nature and extent of risks arising from defined benefit plans (see paragraphs 23-32) .**

[IFRS 7 paragraph 1, IFRS 4 paragraphs 36 and 38]

13. If the specific disclosures required by this and other IFRSs do not meet the objectives in paragraph 12, a reporting entity shall disclose whatever additional information is necessary to meet those objectives. [ED 10 paragraph 50]

14. When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful in complying with the objectives in paragraph 12. It may be useful to distinguish groupings by criteria such as the following:

(a) the geographical location of the plans, for example, by distinguishing domestic plans from foreign plans;

(b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans; or

(c) the level and nature of the entity's involvement in the management of its defined benefit plans, for example, by distinguishing plan assets that are managed by another entity from plan assets that are managed by the reporting entity.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

[adapted IAS 19 paragraph 122]

Amounts in the financial statements arising from defined benefit plans

Statement of financial position

Defined benefit obligation

15. An entity shall disclose:

(a) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:

(i) the total of the amount(s) recognised in the statement of comprehensive income listed in paragraph 21;

(ii) changes in foreign currency exchange rates on plans measured in a currency different from the entity's presentation currency;

(iii) contributions by plan participants;

(iv) benefits paid; and

(v) business combinations;

[adapted IAS 19 paragraph 120A(c)]

(b) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded; [IAS 19 paragraph 120A(d)]

(c) the actuarial assumptions used to determine the defined benefit obligation and the process used to determine these assumptions; [IFRS 4 paragraph 37(c)]

(d) quantified disclosures of those actuarial assumptions in absolute terms. For example, quantified disclosure should be as an absolute percentage, and not just as a margin between different percentages and other variables. [IFRS 4 paragraph 37(c), IAS 19 paragraph 120A(n)]

Plan assets

16. An entity shall disclose a reconciliation of the opening and closing balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following:

    (a) total amount(s) recognised in the statement of comprehensive income (paragraph 21 requires an analysis of these amount(s));

    (b) changes in foreign exchange rates changes on plans measured in a currency different from the entity's presentation currency

    (c) contributions by the employer;

    (d) contributions by plan participants;

    (e) benefits paid; and

    (f) business combinations;

    [IAS 19 paragraph 120A(e)]

17. An entity shall group plan assets into major categories. For each such category, an entity shall disclose:

    (a) the fair value, or the percentage of the fair value of the total plan assets [IAS 19 paragraph 120A(j)]

    (b) the amounts included for:

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

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

    [IAS 19 paragraph 120A(k)]

18. The major categories of plan assets shall be appropriate to the nature of the information disclosed and take into account the characteristics of those categories. [IFRS 7 paragraph 6] For example, corporate debt and government debt instruments, and government debt instruments of different countries may not have similar characteristics. At a minimum, an entity shall distinguish between property, debt and equity instruments.

    [IAS 19 paragraph 120A(j)]

Reimbursement rights

19. An entity shall disclose

    (a) a reconciliation of the opening and closing balances of the fair value 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 items required for plan assets in paragraph 15(a); [IAS 19 paragraph 120A(e)] and

    (b) a brief description of the relationship between any reimbursement right and the related obligation. [adapted IAS 19 paragraph 120A(f)(iv)]

Effect of asset ceiling

20. An entity shall disclose any surplus not recognised as an asset, because of the limit in paragraph 58(b).

    [IAS 19 paragraph 120A(f)(iii)]

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Statement of comprehensive income

21. An entity shall disclose:

    (a) the following expenses and the line item(s) in which they are included:

        (i) current service cost;

        (ii) past service cost,

        (iii) negative past service cost; and

        (iv) interest cost;

        [adapted IAS 19 paragraph 120A(g)]

    (b) the amounts of the following items, if applicable, included in remeasurements:

        (i) return on plan assets;

        (ii) return on any reimbursement right recognised as an asset in accordance with paragraph 104A;

        (iii) actuarial gains and losses;

        (iv) the effect of the limit in paragraph 58(b); and

(c) tax expense allocated to remeasurements.

[adapted from IAS 19 paragraph 120A(g)]

Plan amendments and non-routine settlements

22. An entity shall disclose:

(a) a narrative description of any plan amendments and the effect of such plan amendments on the statement of comprehensive income.

(b) the effect of any *non-routine* settlements[1] on the statement of comprehensive income.

[new]

Nature and extent of risks arising from defined benefit plans

23. An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from defined benefit plans. These risks typically include, but are not limited to, actuarial risk and liquidity risk relating to the defined benefit obligations, and market risk and credit risk relating to plan assets.

[IFRS 7 paragraph 31-32 and IFRS 4 paragraph 38]

24. To comply with paragraph 12(b), an entity shall disclose:

(a) **Information that explains the nature of its defined benefit plans (see paragraphs 25-26).**

(b) **Its objectives, policies and processes for managing risks arising from defined benefit plans and the methods used to manage those risks.**

[1] In accordance with the Board's tentative decision from the May 2009 meeting, the staff proposes to add a definition in IAS 19 as follows:
Non-routine settlements occur when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, excluding events that are covered by the actuarial assumptions underlying the measurement of the defined benefit obligation.

(c) **Information about actuarial risk (see paragraph 27).**

(d) **Information about liquidity risk relating to the defined benefit obligation, and credit risk and market risk relating to plan assets (see paragraphs 28-31).**

(e) **Historical information about the defined benefit plan (see paragraph 32).**

[adapted IFRS 4 paragraph 39]

Nature of an entity's defined benefit plans

25. An entity shall disclose information that explains the nature of its defined benefit plans. An entity shall disclose:

(a) a general description of the type of plan. [IAS 19 paragraph 120A(b)]

(b) a general description of the nature and extent of the entity's involvement with its defined benefit plan. If an entity other than the reporting entity has significant responsibilities for the management of the defined benefit plan, the reporting entity shall disclose that fact and a description of the other entity's responsibilities. [adapted from ED 10 paragraph B38(a)]

(c) information about those terms and conditions of defined benefit plan arrangements that have a material effect on the amount, timing and uncertainty of the entity's future cash flows. Such terms and conditions might include the effect of the regulatory framework the plan operates in, for example the effect of any minimum funding requirements imposed by regulators. [adapted IFRS 4 paragraph 39A (b)]

Multiemployer plans

26. An entity that participates in a defined benefit multi-employer plan shall disclose:

(a) The total number of, and employer's proportion of the number of active members, retired members, and former members entitled to benefits. [new]

(b) A description of the funding arrangements in place including the method used to determine the participant's rate of contributions and any minimum funding requirements. [new]

(c) If it accounts for the plan in accordance with paragraph <30 of IAS 19>:

(i) the fact that the plan is a defined benefit plan; and

(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

[IAS 19 paragraph 30(b)]

Actuarial risk

27. An entity shall disclose:

(a) a sensitivity analysis showing how profit or loss and the defined benefit obligation would have been affected by changes in each actuarial assumption, that were reasonably possible at that date and would have a material effect on the financial statements;

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

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

[adapted IFRS 4 paragraph 37(c) and (d)]

Liquidity risk, credit risk and market risk

28. An entity shall disclose information about liquidity risk relating to the defined benefit obligation, and credit risk and market risk relating to plan assets that paragraphs 31-42 of IFRS 7 would require if the defined benefit obligation and the plan assets were within the scope of IFRS 7. However:

(a) An entity shall provide a maturity analysis of the defined benefit obligation that shows the expected maturities in place of the maturity analyses required by paragraph 39(a) and (b) of IFRS 7.

(b) In complying with the requirement in paragraph 39(c) of IFRS 7, an entity with a funded plan shall disclose a narrative description of investment strategies for plan assets. This might include details of any asset-liability matching strategies, or target allocation percentages or ranges of percentages for each major category of plan assets.

(c) An entity shall not replace the sensitivity analysis required by paragraph 40 of IFRS 7 as permitted by paragraph 41 of IFRS 7.

[Adapted from IFRS 4 paragraph 39(d)]

29. An entity shall provide its best estimate of the contributions it expects to pay to the plan during the next annual period. Such information may be disaggregated into:

(a) contributions required by funding arrangements or regulation,

(b) discretionary contributions and

(c) noncash contributions.

[Adapted IAS 19 paragraph 120A(q)]

30. If the entity participates in a defined benefit multi-employer plan, an entity shall disclose:

(a) the extent to which the entity can be liable to the plan for other participants in the event of their insolvency.

(b) details of any agreed deficit or surplus allocation on wind-up, or the amount that is required to be paid on withdrawal.

[new]

31. An entity that accounts for a defined benefit multi-employer plan in accordance with paragraph <30 of IAS 19> shall, to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose:

(a) any available information about that surplus or deficit;

(b) the basis used to determine that surplus or deficit; and

(c) the implications, if any, for the entity.

[IAS 19 paragraph 30(c)]

Trend analysis

32. An entity shall disclose the amounts for the current annual period and previous four annual periods of:

(a) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; [IAS 19 paragraph 120A(p)]

(b) the experience adjustments arising on the plan liabilities expressed either as (i) an amount or (ii) a percentage of the plan liabilities at the end of the reporting period; [IAS 19 paragraph 120A(p)] and

(c) a comparison of previous estimates of contributions expected to be paid as required by paragraph 29 with actual contributions paid during the same period. [new]

Appendix A: Relevant specific tentative decisions from the May 2009 Board meeting

A1. The relevant tentative decisions are:

(a) to align the disclosure requirements for post-employment benefits with those in IFRS 4 *Insurance Contracts* and IFRS 7 *Financial Instruments: Disclosures*.

(b) to require additional disclosures for participants in multi-employer plans.

(c) not to include in IAS 19 guidance on materiality for disclosures.

(d) to delete from IAS 19 the references to curtailments and settlements. Other changes proposed in this project would remove the need to distinguish curtailments from negative past service cost and settlements from other remeasurements.

(e) to require disclosure of the effect of plan amendments, with a narrative description of the amendments.

(f) to require disclosure of non-routine settlements, defined using wording similar to that used in *IFRIC Update* in May 2008 (events not covered by the actuarial assumptions).

Appendix B: Comparison of disclosure requirements in IFRS 7, IFRS 4 and proposed disclosures for defined benefit plans

IFRS 7	IFRS 4	Current proposals	Analysis
		Objective	
(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, and how the entity manages those risks. (Paragraphs 1-2)	(a) that identifies and explains the amounts in its financial statements arising from insurance contracts. (b) to evaluate the nature and extent of risks arising from insurance contracts. (Paragraphs 36 and 38)	(a) that identifies and explains the amounts in its financial statements arising from defined benefit plans; and (b) to evaluate the nature and extent of risks arising from defined benefit plans. (Paragraph 12)	The objectives are similar.
		Scope	
Applies to all financial instruments except those in the scope of other standards. (Paragraphs 3-5)	Applies to: (a) insurance contracts (b) financial instruments issued with discretionary participation features. (Paragraphs 2-6)	These proposals apply to (a) defined benefit obligations, which are measured using an actuarial valuation technique (b) plan assets, which are measured at fair value. These assets are wider in scope than financial instruments (eg including investment properties and potentially the entity's own equity instruments).	Scope is standard specific.
		Amounts in the Statements of financial position and performance	
Certain information required related to the measurement of financial instruments and its effects.	Certain information required related to measurement of insurance contracts and its related assets, liabilities, income and expenses. (Paragraph 37)	Certain information required related to the measurement of the defined benefit obligation and plan assets and its effects. (Paragraphs 15-22)	These disclosures are specifically tailored to the measurement and presentation requirements of the assets and liabilities under the scope.

Nature and extent of risks			
	Insurance risk	**Actuarial risk**	
Not Applicable.	Insurance risk is the risk, other than financial risk, transferred from the holder of a contract to the issuer. Disclosure of (a) sensitivity to (either as a sensitivity analysis or qualitative information) (b) concentrations of insurance risk (Paragraph 39(c))	Actuarial risk is the risk arising from uncertainty about the ultimate cost of providing benefits. Disclosure of: (a) sensitivity analysis showing the effect of actuarial assumptions (Paragraph 27)	These risks are specific to each standard.
Qualitative disclosures			
For each type of risk: (a) on exposures to risk and how they arise (b) its objectives, policies and process for managing risk (c) any changes in the above information.	Information on its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks. These IFRS 7 requirements apply credit risk, liquidity risk and market risk arising from insurance contracts. (Paragraphs 39 (a) and (d))	Information: (a) on policies and processes for managing risks arising from the defined benefit plans and the methods used to manage those risks. (b) explaining the nature of the entity's defined benefit plans and terms and conditions effecting the amount, timing and uncertainty of the entity's future cash flows. (Paragraphs 24(b) and 25) These IFRS 7 requirements apply to liquidity risk arising from defined benefit obligation and credit risk and market risk arising from plan assets.	The IFRS 7 requirements are the minimum requirements. Additional requirements reflect additional risk and/or the nature of risk specific to insurance contracts and post-employment benefits.
Quantitative disclosures			
(a) Summary quantitative information based on information provided internally to key information personnel	These IFRS 7 requirements apply to insurance contracts. (Paragraph 39 (d))	These IFRS 7 requirements apply to liquidity risk arising from defined benefit obligation and credit risk and market risk arising from plan assets.	Similar requirements for the three standards.

(b) concentrations of risk if not apparent from the earlier disclosures.			
Credit risk			
(a) maximum exposure to credit risk (b) a description of collateral held (c) information about the credit quality of financial assets [not past due nor impaired] (d) the carrying amount of renegotiated financial assets that otherwise would be past due. *Financial assets that are either past due or impaired* (a) an analysis of the age of financial assets that are past due but not impaired (b) an analysis of impaired financial assets and information on impairment factors (c) description of collateral and credit enhancements. *Collateral and other credit enhancements obtained* Information on assets acquired by taking possession of collateral it holds as security or calling on other credit enhancements (Paragraphs 36-38 and B9-B10)	These IFRS 7 requirements apply to insurance contracts. (Paragraph 39 (d))	Staff recommends that these IFRS 7 requirements apply to plan assets. (Paragraph 28)	While the credit risk disclosures may not be relevant for the majority of defined benefit plans, the staff recommends that these disclosures are required for plan assets. The reasons are: • consistency between the proposals and IFRS 7 and IFRS 4 • these disclosures are important for some of the defined benefit plans where these disclosures are relevant.
Liquidity risk			
An entity shall disclose: (a) a remaining contractual maturity analysis for	IFRS 7 disclosures except that the contractual maturity analysis for non-derivative may be replaced information about the estimated timing of	IFRS 7 disclosures except that an expected maturity analysis is required for the defined benefit obligation.	The proposals are consistent with those in IFRS 4 and IFRS 7. Contractual maturity analysis for DBO is unlikely to be relevant for some plans because the

non-derivative financial liabilities. (b) a maturity analysis for derivative financial. (c) a description of how it manages the liquidity risk (d) a maturity analysis for financial assets if necessary for of liquidity risk. (Paragraphs 39 and B11-B11F)	net cash flows. (Paragraph 39(d)(i))	For funded plans, a description of an entity's management of liquidity risk shall also include a narrative description of investment strategies (including any asset-liability matching strategies) Additional disclosure required of the best estimate of the contributions during the next annual period. (from IAS 19 paragraph 120A(q)) Additional disclosures required for multi-employer plans. (Paragraphs 28-31)	payments under the DBO do not have specified fixed maturity dates; they depend on retirement and mortality. .
Market risk			
Entities are required to present a sensitivity analysis (with certain explanatory disclosures) or a value at risk analysis. (Paragraphs 40-42 and B17-B21)	IFRS 7 disclosures except that the sensitivity can be replaced other sensitivity analysis eg embedded value analysis. Information on the exposures to market risk arising from embedded derivatives where these instruments are not measured at fair value. (Paragraphs 39(d) and (e))	IFRS 7 sensitivity analysis required. Alternative value at risk analysis prohibited (Paragraph 28)	The proposals are consistent with the relevant requirements in IFRS 7 and IFRS 4. EBWG recommended not allowing the alternative value at risk disclosures as the sensitivity analysis provides more useful information.
Trend analysis			
Not Applicable	Not Applicable	Disclosure of five years information on: (a) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; (b) the experience adjustments arising on the plan liabilities (c) a comparison of previous estimates of contributions expected vs actual. (Paragraph 32)	Nothing similar in IFRS 7 disclosures. Similar to the claims development table required by IFRS 4. These disclosures are carried over from previous IAS 19 requirements.