



Project	Post-employment Benefits
Topic	Disclosure – Accumulated Benefit Obligation

Purpose of this paper

1. The purpose of this paper is to provide a summary of constituents' feedback on the proposed disclosure of the Accumulated Benefit Obligation (ABO) so that the Board can reconsider its tentative decision in the light of that feedback.

Background

2. At its July 2009 meeting, the Board tentatively decided to require the disclosure of the defined benefit obligation excluding projected growth in salaries, a measure that is commonly referred to as ABO. The Board noted that the ABO could be disaggregated from the Defined Benefit Obligation (DBO), and its disclosure would benefit the users of financial statements by providing additional information.
3. However, the Board was concerned about the additional cost that might result from the disclosure, and requested the staff to consult national standard-setters on this matter. The staff asked national standard-setters whether the disclosure would result in significant additional costs, given the definition of the ABO noted above. The staff also sought advice from the members of the Employee Benefit Working Group (EBWG) and the International Actuarial Association (IAA). Our feedback from those groups is incorporated in the analysis.

Summary of feedback

4. Some respondents are not sure how much additional cost would be incurred in disclosing the ABO. Nevertheless, many of the respondents expect that the

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disclosure of the ABO would not be too costly to implement, on the basis that it is defined as the defined benefit obligation excluding projected growth in salaries. They imply that it might be costly if the ABO is defined otherwise. Some also note an implication of the Board's decision that an entity should consider expected future increases in salaries when assessing whether benefits attribute higher benefits to later years. They note that this means that attributing benefit to periods of service depends upon the future salary increase assumption which in turn means that attribution for the DBO could be different from that of ABO. Hence the estimation of the ABO is not necessarily the same as the calculation of DBO without the salary increase assumption.

5. On the other hand, many respondent expressed grave concerns over the Board's tentative decision on the following points:
 - (a) Definition of the ABO;
 - (b) Purpose of disclosing the ABO; and
 - (c) Risk of confusing users.

Definition of the ABO

6. First of all, some argued that the definition of the ABO by the Board, which simply ignores future salary increases, would not be sensible in every jurisdiction. They indicate that it may not be sufficient to exclude merely future salary increases from the assumptions, because there could be some factors that need considering concurrently with the future salary increase, such as an external reference index and a social security offset benefit¹. Questions were also raised on what the ABO would mean in a plan that offered the higher of a salary-based amount and an amount based on the assets in the plan (ie a contribution-based promise as defined in the Discussion Paper).

¹ They wonder whether the ABO calculation should also assume that:

- (a) there will be no future increase in social security benefits if the plan design involves a social security offset benefit; and/or
- (b) there will be no increase in the external reference index, eg average industry wage or price inflation plus 1% etc, if the plan design links the benefits to it.

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Purpose of disclosing the ABO

7. Many respondents do not see why the Board intends to require the disclosure of ABO, and believe that the ABO is not sufficiently meaningful in some jurisdictions that users would want it. Some are of the view that the Board's purpose should be to inform users of the minimum benefits payable at the measurement date. Presuming that this was the Board's purpose, they believe that a 'Vested Benefit Obligation', which may be defined as a measure of the liabilities assuming that all employees resign at the measurement date with entitlement to vested benefits under the plan, would be more meaningful, and hence more decision-useful to users than the ABO.

Risk of confusing users

8. Also, some respondents are concerned that requiring the disclosure of both the ABO and DBO, rather than clarifying the information disclosed on the DBO, would actually confuse users.

Staff analysis and recommendations

9. Many of the respondents doubted that the disclosure of the ABO would provide meaningful information. Some respondents suggested that the Board should require the disclosure of the 'Vested Benefit Obligation' rather than the ABO. The staff notes that:
- (a) No matter how the ABO is defined, it is unlikely for the definition to be universally accepted as an appropriate measure.
 - (b) The vested benefit obligation would be preferable for regulatory purposes because it is meant to be a solvency amount. However, in July 2009 the Board considered the disclosure of such a regulatory amount, but rejected it, as the staff had recommended².

² Paragraph 22 of agenda paper 5B for July 2009 meeting mentioned that:

However, the disclosure of an alternative measure of the defined benefit obligation only when it is required to be calculated by regulation is unlikely to provide useful information because:

- (i) Such regulatory amounts may be conservatively biased in order to protect employees' rights. Such prudence would not be suitable for general purpose financial statements.

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10. Consequently, the staff recommends that the Board rescind the tentative decision to require the disclosure of the ABO.

Staff Recommendation and Question for the Board

1. The staff recommends that that Board should rescind the tentative decision to require the disclosure of the ABO. Does the Board agree?

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- (ii) It does not enhance comparability because not all jurisdictions require the calculation of the defined benefit obligation on an alternative measure. Also, for jurisdictions that do, there is likely to be inconsistency in what and how that alternative measure is calculated.