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Project	<b>Post-employment benefits</b>
Topic	<b>State plan and group plan disclosures</b>

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## Objective

1. This paper provides:
  - (a) an overview of the proposals in the exposure draft *Defined Benefit Plans* (the ED) relating defined benefit plans that share risks between various entities under common control (group plans) and to state plans (paragraphs 3 - 4).
  - (b) an overview of responses to the ED (paragraphs 5 – 7).
  - (c) a staff analysis and recommendation (paragraphs 8 – 17).
2. The staff recommends that the Board confirm the proposal in the ED to make the disclosures:
  - (a) for defined benefit state plans consistent with the disclosures for multi-employer plans; and
  - (b) for (defined benefit) group plans consistent with the disclosures for other defined benefit plans.

## Background

3. The ED proposed updating, without further reconsideration, the disclosure requirements for entities that participate in state plans or group plans to maintain consistency with the disclosures for multi-employer plans and defined benefit plans.

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This paper has been prepared by the technical staff of the IFRS Foundation for discussion at a public meeting of the IASB.

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

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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## 4. The ED proposed the following amendments:

- 34B Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:
- (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.
  - (b) the policy for determining the contribution to be paid by the entity.
  - (c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, all the information about the plan as a whole ~~in accordance with~~ required by paragraphs 125A–125K ~~120–121~~.
  - (d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole ~~in accordance with~~ by paragraphs 125A–125C, 125F, 125G and 125K, 120A(b)–(e), (j), (n), (o), (q) and 121. ~~The other disclosures required by paragraph 120A do not apply.~~
- 36 An entity shall account for a state plan in the same way as for a multiemployer plan (see paragraphs 29 ~~and 30~~) and disclose the information required by paragraph 33A<sup>1</sup>.
- 38 State plans are characterised as defined benefit or defined contribution in nature based on the entity's obligation under the plan. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans, the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, in the rare cases when a

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<sup>1</sup> Refer Agenda Paper 11B for details of the proposed requirements in paragraph 33A of the ED.

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state plan is a defined benefit plan, an entity applies the treatment prescribed in paragraphs 29 ~~and 30~~ and discloses the information required by paragraph 33A.

**Feedback received**

5. Question 11 of the ED asked:

**Question 11**

The exposure draft updates, without further reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control to make them consistent with the disclosures in paragraphs 125A–125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

6. Many respondents agreed that the disclosures for state plans and group plans should be consistent with the disclosures for multi-employer plans. However, some disagreed with the disclosures for the following reasons:
- (a) For group plans, the information is already provided in the parent entity's financial statements and therefore it need not be repeated in the subsidiary's financial statements. These respondents suggest that a reference to the disclosures in the parent entity's financial statements should be enough.
  - (b) For state plans, the required information may not be available, such as information on the total surplus or deficit and the number of plan participants. The required information will add little value to what is already publicly available.
7. Some respondents noted that the wording of the proposed amendment to paragraph 36 might imply that the disclosures are required for defined contribution state plans. Respondents asked the Board to clarify that the disclosures only apply to defined benefit state plans.

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**Staff analysis and recommendation**

8. The proposed amendment was intended to maintain consistency of the disclosures for state plans with those for multi-employer plans and the disclosures for group plans with those for defined benefit plans. The Board was not reconsidering whether disclosures for state plans and group plans should be required or the extent of the disclosure requirements.

*State plans*

9. Current IAS 19 requires entities to apply paragraphs 29 to 30 of IAS 19 to defined benefit state plans, which includes the disclosure requirements for defined benefit multi-employer plans in paragraphs 30(b) and (c) which include the following:
- (b) disclose:
    - (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; and
  - (c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:
    - (i) any available information about that surplus or deficit;
    - (ii) the basis used to determine that surplus or deficit; and
    - (iii) the implications, if any, for the entity.
10. The ED proposed revised disclosure requirements for multi-employer plans including additional disclosure of:
- (a) the extent the entity can be liable to the plan for other participants' obligations,
  - (b) an indication of the level of participation in the plan; and

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(c) details of any agreed deficit or surplus allocation on wind-up of the plan.

11. Because reconsidering the extent of disclosures required for defined benefit state plans is beyond the scope of the project, the staff recommends that the Board confirm the proposal in the ED to maintain consistency with the multi-employer plan disclosures. The staff believes the concerns regarding the availability of information would apply equally to multi-employer plans and therefore is not a reason to require different disclosures for state plans. In addition, the distinction between multi-employer plans and state plans is not always clear. Therefore, the staff thinks that consistency of disclosure requirements between state plans and multi-employer plans should be maintained.

*Group plans*

12. Current IAS 19 requires entities to apply the following disclosure requirements to the group plan **as a whole**:

- (a) paragraphs 120-121 of IAS 19 if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, or
- (b) paragraphs 120A(b)-(e), (j), (n), (o), (q) and 121 of IAS 19 if the entity accounts for the contribution payable for the period in accordance with paragraph 34A. These paragraphs include requirements for:
  - (i) A description of the plan
  - (ii) Reconciliations for the defined benefit obligation and the plan assets
  - (iii) Categories of plan assets
  - (iv) Actuarial assumptions used
  - (v) Sensitivity of medical cost trend rates
  - (vi) The amount of contributions for the next year

13. The ED proposed revised disclosure requirements for defined benefit plans, replacing paragraph 120-121 with 125A-125K. Therefore the ED updated the

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references for entities that account for an allocation of the net defined benefit cost of the group plan.

14. For entities that account for the contribution payable for the period instead of an allocation of the net defined benefit cost, the ED proposed that the disclosures include the disclosures related to:
  - (a) Information about the characteristics of the plan, including exposure to risk (paragraph 125C of the ED)
  - (b) Reconciliations for the net defined benefit liability or asset (paragraph 125D of the ED)
  - (c) Categories of plan assets (paragraph 125F of the ED)
  - (d) Actuarial assumptions used (paragraph 125G of the ED)
  - (e) Future contributions (paragraph 125K)
  
15. The staff believes that the detailed information about plan assets and the reconciliations for the plan as a whole do not provide relevant information for the users of the financial statements of the entity. But as the Board did not discuss this issue in developing the proposals in the ED, the ED retained the disclosures currently required by IAS 19 for these entities.
  
16. Because reconsidering the extent of disclosures required for group plans is beyond the scope of the project, the staff recommends that the Board confirm the proposal in the ED to maintain consistency with the defined benefit plan disclosures. However, the staff sees no reason why the Board should not permit an entity to cross-reference to disclosures in the parent entity financial statements provided that:
  - (a) the parent entity financial statements separately identify and disclose the information required for the group plans (otherwise the information would be a different level of aggregation and would not be relevant to the entity), and
  - (b) the parent entity financial statements are available to users of the financial statements on the same terms as the financial statements and

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at the same time (similar to paragraph B6 of Appendix B to IFRS 7 *Financial Instruments: Disclosure*).

17. In coming to its original conclusions to require the disclosures for group plans in current IAS 19, the Board noted that information about each of

- (a) the policy on charging the defined benefit cost,
- (b) the policy on charging current contributions and
- (c) the status of the plan as a whole

was required to give an understanding of the potential effect of the participation in the group plan on the entity's financial statements (IAS 19 Basis for Conclusions paragraph BC10K).

**Question 1**

Does the Board agree to confirm the proposal in the ED to make the disclosures:

- (a) for defined benefit state plans consistent with the disclosures for multi-employer plans if the information is available?
- (b) for group plans consistent with the disclosures for defined benefit plans?
- (c) for group plans the information can be included by cross-reference to disclosures in the parent entity financial statements provided that:
  - (i) the parent entity financial statements separately identify and disclose the information required for the group plan, and
  - (ii) the parent entity financial statements are available to users of the financial statements on the same terms as the financial statements and at the same time?

If not, what do you propose and why?