Project **Post-employment benefits**

Topic **Revised disclosures**

Purpose of this paper

1. This paper asks the Board:

   (a) to approve the revised disclosure package (set out in the appendix) for the forthcoming ED of amendments to IAS 19; and

   (b) to exempt plan assets from the scope of the forthcoming standard on fair value measurements.

Revised disclosure package

2. At its January meeting, the Board asked the staff to reduce and streamline the disclosures proposed in January agenda paper 12A. The staff have consulted selected Board members with user and preparer backgrounds and developed the reduced set of disclosures set out in Appendix A.

3. The main changes are:

   (a) we have aligned the objectives and proposed requirements to the information we are asked for by users of financial statements

   (b) we have eliminated many of the risk disclosures that came from IFRS 7 *Financial Instruments*, particularly for plan assets. We have focused the remaining risk disclosures to provide information about how the entity's participation in defined benefit plans affects the amount, timing and variability of its future cash flows

(c) we have simplified the sensitivity analysis of risk disclosures and restricted it to apply to changes in actuarial assumptions only

(d) we have streamlined all the reconciliation disclosures into two paragraphs

(e) we have moved the multiemployer disclosures back to the section on multi-employer plans. Appendix B shows the proposed amendments to that section.

The staff can provide a markup of changes from the previous version on request.

4. We have also provided in Appendices C and D comparisons with the existing version of IAS 19 and with US GAAP.

Specific disclosures for the attention of the Board

Reconciliation to total defined benefit expense

5. At a previous meeting, the Board decided tentatively to propose that entities disclose a reconciliation of the amounts recognised in profit or loss and in other comprehensive income to the total defined benefit expense, showing the line items in which they are included.

6. The purpose of this disclosure was to provide information about the amount of pension cost included in various expense line items in profit or loss. Some Board members also stated that it would be useful to see the total pension expense disclosed in one place, rather than requiring users of financial statements to calculate it. However, some Board members have questioned whether this disclosure provides valuable additional information.

7. In the staff's view, providing the total pension expense, though convenient for users of financial statements, would not provide additional information to users of financial statements. That amount can be determined by adding up amounts already required by the other disclosures.

8. The additional information provided by this disclosure is the requirement to show the line items in which the amounts recognised for defined benefit plans are recognised. This information may be useful if users of financial statements would like to assess the effect of pension expense on those line items (eg cost of goods sold).

9. However, the staff notes that the Board has already decided to require that entities disaggregate pension cost into employment, financing and remeasurement components. The amount of pension cost in the remeasurement component will be evident from the disaggregation of OCI. Thus, the main issue is whether further information is needed about the amounts of pension cost in the line items that include the employment and financing components.

10. Because IAS 19 will require the financing component to be the net interest on the defined benefit asset or liability, and this amount can be readily determined, the staff thinks that there is no need to provide disaggregation of the financing component by line item.

11. The question remains as to whether there should be disaggregation of the employment cost by line item in the operating section. The staff notes that there is no other expense for which disaggregation by line item is required and therefore the staff thinks that this disclosure is not necessary for pensions.

12. Accordingly, Appendix A does not propose that entities disclose a reconciliation of the amounts recognised in profit or loss and in other comprehensive income to the total defined benefit expense, showing the line items in which they are included.

Disclosure of qualitative information about the process used to determine demographic actuarial assumptions

13. Paragraph 125H requires entities to disclose quantitative information about actuarial assumptions used to determine the defined benefit obligation. However, some Board members and staff noted that such information could be difficult to interpret without extensive supplementary information that would be

impracticable to provide, especially for demographic assumptions such as mortality rates.

14. Accordingly, we propose that entities be required to explain how it determined demographic actuarial assumptions (paragraph 125I) . For example, if an entity has developed mortality assumptions using a standard table, it could disclose the source of that table and when it was compiled. Similarly, the entity could disclose the assumed rate of mortality changes that will occur in future periods.

15. We do not envisage that entities would provide detailed information about adjustments made to the standard tables if such disclosure would require detailed demographic information to provide sufficient context for users to understand whether those adjustments were appropriate and sufficient.

Expected contributions to the plan

16. Paragraph 120A(q) of IAS 19 requires disclosure of "the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting period".

17. In July 2009, the Board decided tentatively to extend this disclosure and require an entity to disclose "information about its best estimates of the contributions it expects to pay to the plan during the next annual period, distinguishing required contributions, discretionary contributions and non-cash contributions".

18. The purpose of this disclosure was to provide information for users of financial statements to forecast sponsors' future cash requirements and provide information to evaluate the sponsors' financial flexibility. We were told in the comment letters and by the EBWG that such disclosure provided useful information.

19. Feedback from a preparer suggests that this information cannot be reliably determined because future contributions will be based on economic conditions at each future year's end. In addition, some Board members questioned the necessity for this disclosure. They note that this amount includes contributions

to cover future service cost plus additional contributions to cover existing deficits or pre-fund future service cost less the effect of contribution holidays or reductions to eliminate existing surpluses. Thus, the disclosure would be more useful if it highlights likely differences between service cost and contributions. This might arise in the event of a contribution holiday, or if an entity expects to eliminate a deficit through additional contributions.

20. Those Board members believe that a more useful way to convey the information described in paragraph 19 is to provide a narrative discussion of factors that could cause service cost to differ significantly from expected contributions over the next five years. For example:

(a) if the entity is taking a partial contribution holiday, it would disclose the extent and estimated duration of the contribution holiday.

(b) if the entity is eliminating a deficit by contributions in excess of service cost, it would disclose the extent of the additional contributions and the period over which it intends to eliminate the deficit.

21. Accordingly, we have proposed that an entity shall provide a discussion of factors that could cause service cost over the next five years to differ significantly from contributions to be paid over that period (paragraph 125N).

Disclosure package
Does the Board confirm that the forthcoming exposure draft should propose the disclosures in Appendices A and B?

Disclosures about the fair value of plan assets

22. In May 2009, the Board published an exposure draft *Fair Value Measurement* (FVM ED) that included requirements to disclose information about fair value. The proposed scope of that exposure draft includes “IFRSs that require or permit fair value measurements or disclosures”. Because IAS 19 requires disclosures about the fair value of plan assets, the proposed standard, including the

disclosures, would apply to IAS 19. The defined benefit obligation is not measured at fair value and the FVM ED does not apply.

23. Appendix E details the disclosures in paragraphs 56-61 of the FVM ED.

US GAAP requirements

24. In December 2008, the FASB published FSP FAS 132(R)–1 *Employer's Disclosures about Postretirement Benefit Plan Assets*. FSP FAS 132(R)-1 introduced disclosures based on, but not as extensive as, those proposed in the FVM ED for entities with defined benefit plans. As a result, entities reporting under US GAAP are required to disclose information about the inputs and valuation techniques used to develop fair value measurements, including:

(a) The level of the fair value measurement hierarchy in which the fair value measurements fall.

(b) Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

(c) For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances.

Feedback on the FVM ED

25. We have set out the proposed FVM ED disclosures in Appendix E. Some comment letters on the FVM ED commented on the application of these disclosures to plan assets:

(a) The American Academy of Actuaries noted that some of the disclosures in the FVM ED would not be appropriate for plan assets and suggest that any changes to the asset disclosure requirements under IAS 19 should be made in conjunction with the project to amend IAS 19.

(b) Watson Wyatt note that the disclosures in the FVM ED would require a significant amount of additional work and would be impractical for many pension and other PEB plans to produce on short year end timescales. They are concerned about the cost in relation to the additional value to investors and note that this information is less available for pooled or comingled funds than an entity's own assets, because the entity is not directly involved in investment management of funds.

(c) The ICAEW stated that the disclosure requirements would be unduly excessive, particularly in relation to Levels 2 and 3.

26. The AAA and Watson Wyatt both recommend the FASB's approach of setting out the disclosure requirements for postemployment benefit plan assets separately from the general fair value measurement disclosure requirements for other items.

27. We also discussed the fair value measurement disclosures with the Employee Benefits Working Group. Although some supported these disclosures because they would be provided for other assets measured at fair value, some argued that they would be irrelevant or excessive for plan assets given that, by definition, they are not held directly by the entity, but held in a separate fund.

Analysis of the proposals in the FVM ED

28. Paragraphs 56 and 57 of the FVM ED set out disclosures for assets and liabilities measured at fair value. However, as noted in paragraphs 25-27, some argue that information about how fair value of plan assets is determined is less relevant to users of a sponsoring entity's financial statements than if the plan assets had belonged to the entity itself.

29. One exception is the disclosure in paragraph 57(b), which requires 'the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3)." Some of the Board members we consulted after the January meeting stated that this disclosure would provide an indication of the reliability of information about plan assets and should be

retained. We have included a similar requirement in paragraph 125G of Appendix A[1].

30. In line with the direction previously indicated by the Board, the staff does not recommend that the other disclosures in paragraphs 56 and 57 are applied to plan assets.[2]

31. Paragraph 58 of the FVM ED requires:

> 58 For each class of assets and liabilities not measured at fair value in the statement of financial position, but for which the fair value is disclosed, an entity shall disclose the fair value by the level of the fair value hierarchy.

Discussion with the FVM staff suggests that this paragraph is intended for items that are recognised and measured on a basis other than fair value (eg amortised cost for some financial instruments), but for which IFRSs require disclosures about fair value. Therefore, it is not relevant for plan assets, which are always measured at fair value.

32. Paragraph 59 of the FVM ED applies only to liabilities and is not relevant to IAS 19.

33. We believe the Board will discuss the necessity for the disclosure in paragraph 60 (about highest and best use) during the February meeting. Nonetheless, in the staff's view, disclosures about highest and best use of assets held in a separate fund, with possible regulatory restrictions, which the entity may not be able to control, are not relevant to users of a sponsor's financial statements and should not be required.

34. If the Board agrees with the staff recommendation, then paragraph 61 (requirement to tabulate disclosures) becomes unnecessary and the staff does not recommend it is included in IAS 19.

[1] The equivalent requirement in US GAAP is ASC 715-20-50-1(c)(5)(iv)(03).
[2] Though we note that US GAAP requires disclosures similar to those in paragraphs 56 and 57.

Disclosures about fair value of plan assets
Does the Board agree that entities: (a) should not, for plan assets, be required to provide the disclosures proposed in paragraphs 56-61 of the fair value measurement exposure draft? (b) should disclose the fair value of plan assets categorised in each level of the fair value measurement hierarchy (Level 1, 2 or 3)?

Appendix A Revised disclosures

A1. The revised package of disclosures for inclusion in the forthcoming ED is set out below:

125A An entity shall disclose information that:

(a) explains the characteristics of its defined benefit plans (see paragraph 125C);

(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 125D-125J); and

(c) describes how its participation in defined benefit plans affects the amount, timing and variability of the entity's future cash flows (see paragraphs 125K-125N).

125B An entity shall assess whether disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity could disaggregate disclosure about plans:

(a) in different geographical locations;

(b) with different characteristics such as flat salary pension plans, final salary pension plans, post-employment medical plans,

(c) in a different regulatory environments; or

(d) with different funding arrangements, ie wholly unfunded, wholly or partly funded.

Information that explains the characteristics of defined benefit plans

125C An entity shall disclose:

(a) information about the type of plans the entity has, including

(i) the nature of the benefits provided by the plan (eg final salary pension plan or contribution-based plan with guarantee).

(ii) the effect of the regulatory framework the plan operates in, for example the effect of any minimum funding requirements.

(iii) a description of any other entity's responsibilities for the governance of the plan.

(iv) any restrictions on the realisability of any surplus recognised in accordance with paragraph 58. An entity shall also disclose the basis used to determine the amount of the economic benefit available to determine the recoverable surplus.

(b) a narrative description about its exposure to risks arising from the entity's participation in the plan and any concentrations of risk.

(c) a narrative description of any plan amendments and non-routine settlements, and the effect of such plan amendments and non-routine settlements on the statement of comprehensive income.

Information that identifies and explains amounts in the financial statements

125D An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the defined benefit asset or liability, showing separate reconciliations for:

(i) plan assets

(ii) the defined benefit obligation

(iii) the effect of the asset ceiling

(b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

125E Each reconciliation listed in paragraph 125D shall show each of the following, if applicable:

(a) service cost, showing current and past service cost separately.

(b) net interest income or expense.

(c) remeasurements, showing separately:

(i) the return on assets, excluding amounts recognised as interest income in (b).

(ii) actuarial gains and losses, showing separately the effect of changes in demographic assumptions and the effect of changes in financial assumptions.

(iii) the effect of non-routine settlements.

(iv) the effect of the asset ceiling.

(d) translation differences arising on plans measured in a currency different from the entity's presentation currency.

(e) contributions by the employer.

(f) contributions by plan participants.

(g) payments from the plan, showing separately any non-routine settlements.

(h) business combinations and disposals.

Other information about amounts recognised in the financial statements

125F An entity shall disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets. At a minimum, an entity shall distinguish property, corporate debt instruments, government debt instruments, own equity instruments, other equity instruments that have a quoted market price in an active market and other equity instruments that do not have a quoted market price in an active market.

125G An entity shall disclose the fair value of plan assets categorised in each level of the fair value measurement hierarchy (Level 1, 2 or 3).

125H An entity shall disclose quantitative information about actuarial assumptions used to determine the defined benefit obligation (see paragraph 73). Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). 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.

125I An entity shall disclose qualitative information about the process used to determine demographic actuarial assumptions to supplement the disclosures provided in accordance with paragraph 125H.

125J An entity shall disclose the amount that results from adjusting the present value of the defined benefit obligation to exclude the effect of projected salary growth.

Information about the amount, timing and variability of future cash flows

125K An entity shall disclose details of any asset-liability matching strategies that it uses, including the use of annuities and other techniques such as longevity swaps to manage longevity risk.

125L An entity shall disclose a sensitivity analysis showing how changes in each significant actuarial assumption to which the entity is exposed at the end of the reporting period and that was reasonably possible at that date affect:

(a) comprehensive income and the defined benefit obligation; or

(b) comprehensive income and the net defined benefit asset or liability.

125M An entity shall disclose:

(a) the methods and assumptions used in preparing the sensitivity analyses required by paragraph 125L.

(b) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

(c) the limitation of the methods used in (a).

125N An entity shall provide a discussion of factors that could cause service cost over the next five years to differ significantly from contributions to be paid over that period. For example:

(a) if the entity is taking a partial contribution holiday, it shall disclose the extent and estimated duration of the contribution holiday.

(b) if the entity is eliminating a deficit by contributions in excess of service cost, it shall disclose the extent of the additional contributions and the period over which it intends to eliminate the deficit.

Appendix B Disclosures about multiemployer plans

A1. The following paragraphs show how we propose to amend IAS 19 to include the multi-employer disclosures.

Multi-employer Plans

29 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). An entity that participates in a defined benefit multi-employer plan shall disclose:

(a) a description of the funding arrangements, including the method used to determine the participant's rate of contributions and any minimum funding requirements.

(b) the extent to which the entity can be liable to the plan for other participants' obligations under the terms and conditions of the multi-employer plan.

(c) the total number of, and employer's proportion of the number of active members, retired members, and former members entitled to benefits.

(d) the expected contributions to the plan for the next period and for each of the following four years.

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

29A Unless paragraph 30 applies, an entity that participates in ~~Where~~ a defined benefit multi-employer plan ~~is a defined benefit plan, an entity~~ shall:

(a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and

(b) disclose the information required by paragraphs 125A-125N~~120A~~.

30 When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

(a) account for the plan under paragraphs 44-46 as if it were a defined contribution plan;

(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~~

(iii)~~(c)~~ information about any ~~to the extent that a~~ surplus or deficit in the plan that may affect the amount of future contributions, including ~~disclose in addition:~~

~~(i) any available information about that surplus of deficit;~~

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

~~(iii)~~ the implications, if any, for the entity.

Appendix C Differences between proposed disclosures and the requirements of IAS 19

A1. The main differences between these disclosures and those currently required by IAS 19 are:

(a) a statement of disclosure objectives and a requirement to disclose additional information necessary to meet the objectives (paragraph 125A).

(b) enhanced disclosure about the type of plan (paragraph 125C).

(c) requirements to disclose risk information, both narrative and quantitative (for actuarial risk), including sensitivity analysis (paragraphs 125K-125M).

(d) streamlining of the reconciliations required by IAS 19 (paragraphs 125D and 125E).

(e) additional disclosures:

(i) the fair value of plan assets categorized in each level of the fair value measurement hierarchy (Level 1, 2 or 3) (paragraph 125G).

(ii) information about the process used to determine demographic actuarial assumptions (paragraph 125I).

(iii) the present value of the defined benefit obligation modified to exclude the effect of project salary growth (paragraph 125J).

(iv) information about expected contributions to plan (paragraph 125N).

(f) enhanced disclosures about participation in multi-employer plans (Appendix B).

(g) deleted disclosures relating to deferred recognition (now redundant).

Appendix D Differences between proposed disclosures and US GAAP

A2. Compared to the proposed disclosures, the main differences with the disclosures required by US GAAP are that US GAAP:

(a) does not set out explicit principles for disclosure about defined benefit plans (paragraph 125A).

(b) provides more detailed requirements on disaggregation of disclosures when an entity has more than one plan.

(c) requires more extensive, more disaggregated disclosures about the fair value of plan assets, investment strategies, risk management practices.

(d) is more specific about the assumptions for which disclosure is provided.

(e) does not require disclosures about:

(i) the type of plan (125C(a)).

(ii) realisability of any surplus (125C(a)(iv)).

(iii) risks relating to the defined benefit obligation. Sensitivity analysis is required only for assumed healthcare trends and not for changes in other actuarial assumptions (125K-125N).

(f) requires disclosure of:

(i) the current and noncurrent portions of the defined benefit obligation.

(ii) any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation.

(iii) The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

A3. A detailed analysis, including comment on the differences, is available on request.

Appendix E Disclosures proposed by the Fair Value Measurement Exposure Draft

56 For assets and liabilities measured at fair value, an entity shall disclose information that enables users of its financial statements to assess the methods and inputs used to develop those measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

57 To meet the objectives in paragraph 56, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, how much aggregation or disaggregation to undertake, and whether users need any additional information to evaluate the quantitative information disclosed. At a minimum, an entity shall disclose the following information for each class of assets and liabilities:

(a) the fair value measurement at the end of the reporting period.

(b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).

(c) for assets and liabilities held at the reporting date, any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilitiesd.

(d) the methods and the inputs used in the fair value measurement and the information used to develop those inputs. If there has been a change in valuation technique (eg changing from a market approach to an income approach), the entity shall disclose that change, the reasons for making it, and its effect on the fair value measurement.

(e) for fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

   (i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income

   (ii) total gains or losses for the period recognised in other comprehensive income.

   (iii) purchases, sales, issues and settlements (each of those types of change disclosed separately).

   (iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

(f) the amount of the total gains or losses for the period in (e)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the reporting date, and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented)

58 For each class of assets and liabilities not measured at fair value in the statement of financial position, but for which the fair value is disclosed, an entity shall disclose the fair value by the level of the fair value hierarchy

59 For each class of liability measured at fair value after initial recognition, an entity shall disclose:

(a) the amount of change, during the period and cumulatively, in the fair value of the liability that is attributable to changes in the non-performance risk of that liability, and the reasons for that change.

(b) how the entity estimated the amount in paragraph 59(a) attributable to changes in the non-performance risk of the liability.

(c) the difference between the liability's carrying amount and the amount of economic benefits the entity is required to sacrifice to satisfy the obligation (eg for a contractual liability, this would be the amount the entity is contractually required to pay to the holder of the obligation)

60 If an asset is used together with other assets and its highest and best use differs from its current use (see paragraphs 20 and 21), an entity shall disclose, by class of asset:

(a) the value of the assets assuming their current use (ie the amount that would be their fair value if the current use were the highest and best use).

(b) the amount by which the fair value of the assets differs from their value in their current use (ie the incremental value of the asset group).

(c) the reasons the assets are being used in a manner that differs from their highest and best use.

61 An entity shall present the quantitative disclosures required by this [draft] IFRS in a tabular format unless another format is more appropriate.