Project: **Post-employment benefits**

Topic: **Forthcoming exposure draft of amendments to IAS 19 – disclosures**

Objective

1. The objective of this paper is to obtain feedback from the ARG on the disclosures we propose for the forthcoming exposure draft of amendments to IAS 19. We have set out the proposed disclosures in Appendix A.

Questions for ARG

2. The Board proposes to clarify the objectives so that entities provide disclosure that:

   (a) explains the characteristics of its defined benefit plans;

   (b) identifies and explains the amounts in its financial statements arising from its defined benefit plans; and

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

   Do you agree these objectives provide an adequate framework for the specific disclosures about defined benefit plans required by users of financial statements? If not, how would you amend the objectives and why?

3. To achieve the disclosure objectives, the Board proposes new disclosure requirements, including:

   (a) information about risk, both narrative and quantitative (for actuarial risk), including sensitivity analysis (see paragraphs 125K-125M).

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

(c) information about the process used to determine some actuarial assumptions (paragraph 125I).

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

(e) information about asset-liability matching strategies (see paragraph 125K).

(f) information about factors that could cause service cost to differ from contributions (see paragraph 125N).

We have provided some background information about each of these disclosures in Appendix B.

Do you agree with the proposed new disclosure requirements? If not, what alternative disclosures do you propose that would achieve the disclosure objectives?

4. Do you have any other comments on the disclosure package set out in Appendix A?

Appendix A Proposed disclosures

A1. The proposed package of disclosures 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: Background to selected disclosures

A2. In developing the disclosures for defined benefit plans, we tried to balance the need to provide sufficient disclosures about defined benefit plans when those plans were significant to the operations of the entity, against excessive detail that obscures relevant and significant information when the plans are not as significant.

A3. We believe that an approach that articulates objectives for disclosures about defined benefit plans gives entities the flexibility to decide on an appropriate level of disclosure that enables users to see the overall picture but without combining information that has different characteristics.

A4. This appendix provides background information about each of the disclosures set out in paragraph 3.

Information about risk (paragraphs 125K-125M)

A5. The Board concluded that disclosures similar to those required by IFRS 7 *Financial Instruments* and IFRS 4 *Insurance Contracts* would be unnecessary in depicting an entity’s involvement with a defined benefit plan. In particular, disclosures about market risk and credit risk of plan assets would be unnecessary because the entity does not manage the plan assets directly and does not have an unrestricted ability to access the economic benefits from those assets. Further, because plan assets, as defined in IAS 19, are held by a legally separate fund and can be used only to pay or fund employee benefits, an entity may have restricted information about them. Information about plan assets is relevant to users of the employer entity’s financial statements only to the extent that they affect that the entity’s expected future cash flows.

A6. To respond to the requests in the comment letters that entities should provide more disclosures about the risks inherent in a defined benefit plan and the risks associated with plan assets held to fund the benefit, we propose that entities provide a narrative description of exposure to risk arising from their participation in the plan. In addition, since actuarial risk is a significant risk for any entity with a defined benefit plan, we propose that entities provide quantitative disclosures, including sensitivity analysis, about actuarial assumptions used to determine the defined benefit obligation.

Information about the fair value of plan assets (paragraph 125G)

A7. We do not propose to require entities to make extensive disclosures about the fair value of plan assets, such as those proposed in its exposure draft Fair Value Measurement. Such disclosures would not be relevant for users of the employer entity's financial statements because they are not held directly by the entity. However, we propose that entities disclose the level of the fair value hierarchy within which the fair value measurements are categorised because this would provide an indication of uncertainty about the measurement of plan assets.

Actuarial assumptions and the process used to determine them (paragraphs 125H and 125I)

A8. The Board decided that it would not specify particular assumptions for which disclosure is required because particular disclosures may not be needed to meet the underlying objectives in every case. Such particular disclosures may contribute to information overload that obscures important information in a mass of detail. Accordingly, we propose an approach in which entities will have to use their judgement to determine which actuarial assumptions require disclosure.

A9. We propose to retain the requirement in IAS 19 for entities to provide quantified disclosures about actuarial assumptions. However, in some cases, such quantified disclosures could be difficult to interpret without extensive supplementary information that it would be impracticable to provide. For example, we think that disclosure of mortality rates without supporting information could be misleading, but that it is not practicable for entities to provide users with the detailed knowledge about the demographic profile of a plan that they would need to make a meaningful assessment of the information provided by disclosures of mortality rates alone. Therefore, we also propose that entities should explain how it determined those actuarial assumptions. 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.

Present value of the defined benefit obligation modified to exclude the effect of projected salary growth (paragraph 125J)

A10. We propose that entities disclose the defined benefit obligation excluding projected growth in salaries (sometimes referred to as the accumulated benefit obligation). In some circumstances, this amount is similar to the amount of the entity's obligation if the plan were to be terminated, and some users believe that is relevant additional information. In addition, this amount is relevant to some who believe that the measurement of these liabilities should exclude projected salary growth. We believe this information would not be costly to provide because it uses inputs that entities need to determine the defined benefit obligation.

Disclosures about asset-liability matching strategies (paragraph 125K)

A11. The comment letters suggested that entities should disclose information about their strategies to match plan assets to plan liabilities. We considered broadening this requirement so that all entities with defined benefit plans would have been required to discuss their strategies for mitigating risks arising from defined benefit plans. However, such a requirement could result in meaningless boilerplate disclosure, except for asset-liability matching strategies or the use of techniques such as longevity swaps. Accordingly, we propose that an entity disclose details of any asset-liability matching strategies that it uses, and the use of annuities and other techniques such as longevity swaps to manage longevity risk.

Expected contributions to the plan (paragraph 125N)

A12. The comment letters proposed requiring disclosure of information about an entity's best estimates of the contributions it expects to pay to the plan during the next year, distinguishing required contributions, discretionary contributions and non-cash contributions. However, we think that more useful information would highlights possible differences between service cost and cash contributions in the near future. This would be the case if the entity is taking a full or partial contribution holiday or is eliminating a deficit through additional contributions. Therefore we propose disclosure of factors that could cause service cost to differ from contributions. We believe this is more useful than merely disclosing expected payments in the next year, because those payments depend partly on future service cost and because mere disclosure of the amount will not indicate likely trends beyond the next year.