Project **Post-employment benefits**

Topic **Disclosures**

Purpose of this paper

1. This paper asks the Board

   (a) to propose that entities disclose:

      (i) disaggregated information about the actuarial gains and losses arising on the defined benefit obligation.

      (ii) the total amount of post-employment benefit expense in the period.

   (b) to confirm that the disclosures set out in the appendix will be included in the forthcoming ED.

Disaggregated disclosure of actuarial gains and losses

2. At its December meeting, the Board asked the staff to propose disclosure of disaggregated information about the actuarial gains and losses on the defined benefit obligation.

3. IAS 19 defines actuarial gains and losses as comprising:

   (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

   (b) the effects of changes in actuarial assumptions.

4. IAS 19 also states the actuarial assumptions comprise:

(a) demographic assumptions, including mortality, rates of employee turnover, disability and early retirement; the proportion of plan members with dependants who will be eligible for benefits and claim rates.

(b) financial assumptions, dealing with items such as the discount rate, future salary and benefit levels and, in the case of medical benefits, future medical costs.

5. The discussion paper *Preliminary Views on Amendments to IAS 19* characterised actuarial gains and losses arising from changes in actuarial assumptions other than the discount rate as changes in estimate of service cost. In its December meeting, the Board noted that it was problematic to isolate changes in the discount rate assumption because changes in the discount rate are related to changes in inflation rates, salary levels etc. The Board agreed with the view that it would be arbitrary and complex to divide the gains and losses on the defined benefit obligation into those arising from changes in the discount rate and those arising from other factors. However, the Board noted that the interrelationship between financial assumptions and demographic assumptions would not be as significant as the interrelationships between financial assumptions. Accordingly, the Board asked the staff to develop a requirement for entities to disclose the effects of changes on financial assumptions and demographic assumptions on the change in defined benefit expense.

6. We note that the difficulties we identified for disaggregating the effect of changes in the discount rate from the effects of changes in other assumptions, particularly financial assumptions do not apply because there is relatively little interrelationship between demographic and financial assumptions.

Disaggregation of the effect of changes in actuarial assumptions
Does the Board agree that entities should disclose the amount of actuarial gains and losses, showing separately at least the effect of changes in demographic assumptions and the effect of changes in financial assumptions (see paragraph <73 of IAS 19>)?

7. The disclosure is set out in paragraph 125K(b)(iii) in the appendix.

Disclosure of the total amount of post-employment benefit expense

8. One Board member proposed that entities disclose the total amount of post-employment benefit expense so that the overall effect of post-employment benefits is clearer to users of financial statements. The staff has included this is paragraph 125K of the appendix.

Total amount of post-employment benefit expense
Does the Board agree that entities should disclose the total amount of post-employment benefit expense in the period?

Package of disclosure requirements

9. The appendix sets out the package of disclosure requirements the staff proposes to include in the exposure draft. Those requirements reflect improvements and refinements that were developed with the assistance of a small group of Board members and in consultation with representatives of some actuarial firms.

10. In addition, we have revised the proposed disclosures in paragraph 125K of the appendix to be consistent with the Board's tentative decisions that:

    (a) entities should present pensions remeasurements in other comprehensive income and

    (b) remeasurements exclude net interest income or expense, determined by applying the high quality corporate bond rate to the net defined benefit asset or liability.

Package of disclosure requirements
Does the Board confirm that the forthcoming exposure draft should propose the disclosures in the appendix?

Appendix

A1. The following table sets out the proposed disclosures and indicates the source of each.

Requirement	Source
Disclosure principles	
125A An entity shall disclose information that: **(a) identifies and explains the amounts in its financial statements arising from defined benefit plans (see paragraphs 125D-125L); and** **(b) enables users of its financial statements to evaluate the nature and extent of risks arising from defined benefit plans (see paragraphs 125M-125Z).**	IFRS 7 paragraph 1, IFRS 4 paragraphs 36 and 38
125B If the specific disclosures required by this and other IFRSs do not meet the objectives in paragraph 125A, a reporting entity shall disclose whatever additional information is necessary to meet those objectives.	ED 10 paragraph 50
125C 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 meeting with the objectives in paragraph 125A. 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 distinguishing plans in a different regulatory environment; 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 from IAS 19 paragraph 122

Amounts in the financial statements arising from defined benefit plans	
Statement of financial position	
Defined benefit obligation 125D 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 either paragraphs 125K(a) and 125K(b); (ii) the amount of exchange differences arising on plans measured in a currency different from the entity's presentation currency; (iii) contributions by plan participants; (iv) benefits paid, showing separately any non-routine settlements[1]; and (v) business combinations;	adapted from IAS 19 paragraph 120A(c) (a)(iv) – Board decision May 2009
(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 present value of the defined benefit obligation modified to exclude the effect of projected salary growth; and	Board decision July 2009, reaffirmed in November 2009
(d) information about the actuarial assumptions used to determine the defined benefit obligation. The entity shall disclose: (i) the process used to determine these assumptions; and (ii) 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	IFRS 4 paragraph 37(c) IAS 19 paragraph 120A(n)

[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 those transactions that are covered by the actuarial assumptions underlying the measurement of the defined benefit obligation.

different percentages and other variables.	
Plan assets 125E 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) the total of the amount(s) recognised in the statement of comprehensive income listed in paragraphs 125K(a) and 125K(b); (b) the amount of exchange differences arising 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, showing separately any non-routine settlements; and (f) business combinations.	IAS 19 paragraph 120A(e)
125F 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; (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(j) IAS 19 paragraph 120A(k)
125G 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. For example, corporate debt and government debt instruments may not have similar characteristics. Also, the government debt instruments of different countries may have significantly different risks or other characteristics. At a minimum, an entity shall distinguish between property, debt and equity instruments.	IAS 19 paragraph 120A(j), IFRS 7 paragraph 6
125H An entity shall disclose any restrictions on the realisability of any surplus recognised in accordance with paragraph 58 and disclose the basis used to determine the amount of the economic benefit available.	IFRIC 14.10
Reimbursement rights 125I An entity shall disclose (a) a reconciliation of the opening and closing balances of the fair value of any reimbursement right recognised as an asset in accordance with paragraph <104A of IAS 19> showing separately, if applicable, the effects during the period attributable to each of the items required for plan assets in paragraph 125E; and	IAS 19 paragraph 120A(e)
(b) a brief description of the relationship between any	adapted from IAS

	reimbursement right and the related obligation.	19 paragraph 120A(f)(iv)
	Net defined benefit asset or liability	IAS 19 paragraph 120A(f)
125J	An entity shall disclose a reconciliation of the present value of the defined benefit obligation in paragraph 125D(a) less the fair value of the plan assets in paragraph 125E to the net defined benefit asset or liability presented in the statement of financial position, showing any surplus not recognised as an asset, because of the limit in paragraph 58(b).	
Statement of comprehensive income		
125K	An entity shall disclose the total defined benefit expense recognised in the statement of comprehensive income. In addition, the entity shall disclose:	Highlighted text to be discussed at this meeting
	(a) the following expenses recognised in profit or loss and the line item(s) in which they are included: (i) current service cost; (ii) past service cost; (iii) net interest income or expense, showing separately the amounts attributable to the defined benefit obligation and to the plan assets; and	adapted from IAS 19 paragraph 120A(g) disaggregation follows March 2009 decision
	(b) remeasurements recognised in other comprehensive income, showing separately the amounts of the following items, if applicable: (i) return on plan assets, (excluding amounts recognised as interest income in profit or loss); (ii) return on any reimbursement right recognised as an asset in accordance with <paragraph 104A of IAS 19> (excluding amounts recognised as interest income in profit or loss); (iii) actuarial gains and losses, showing separately the effect of changes in demographic assumptions and the effect of changes in financial assumptions (see paragraph <73 of IAS 19>); [2] (iv) the effect of the limit in paragraph 58(b); and	adapted from IAS 19 paragraph 120A(g) Highlighted text to be discussed at this meeting

[2] *Actuarial gains and losses* comprise:

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

(b) the effects of changes in actuarial assumptions. {defined in IAS 19}

	(v) the effect of non-routine settlements.	
	Plan amendments and non-routine settlements	Board decision May 2009
125L	An entity shall disclose a narrative description of any plan amendments and the effect of such plan amendments on the statement of comprehensive income.	
Nature and extent of risks arising from defined benefit plans		
125M	To comply with paragraph 125A(b), an entity shall disclose: (a) Information that explains the nature of its defined benefit plans (see paragraphs 125N). (b) Information about risks relating to the net defined benefit asset or liability (see paragraphs 125O-125Y). These risks typically include, but are not limited to, actuarial risk, market risk, credit risk and liquidity risk.[3] (d) Historical information about the defined benefit plan (see paragraph 125Z).	adapted from IFRS 4 paragraph 39
	Nature of an entity's defined benefit plans	IAS 19 paragraph 120A(b)
125N	An entity shall disclose: (a) A general description of the type of plan.	
	(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 (for example an independent trust) has significant responsibilities for the governance of the defined benefit plan, the reporting entity shall disclose that fact and a description of the other entity's responsibilities.	Adapted from ED10 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 from IFRS 4 paragraph 39A(b)
Risks relating to the net defined benefit asset or liability		
125O	An entity shall disclose: (a) its objectives, policies and processes for managing and mitigating risks arising from defined benefit plans. (b) any changes in (a) from the previous period;	Adapted from IFRS 7 paragraph 33

[3] **Actuarial risk** is the risk arising from uncertainty about the ultimate cost of providing benefits.

125P For each type of risk arising from defined benefit plans, an entity shall disclose: (a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in IAS 24 *Related Party Disclosures*), for example the entity's board of directors or chief executive officer. (b) the disclosures required by paragraphs 125R to 125Y, to the extent not provided in (a), unless the risk is not material (see paragraphs 29–31 of IAS 1 for a discussion of materiality). (c) concentrations of risk if not apparent from (a) and (b).	Adapted from IFRS 7 paragraph 34
(d) the limitations of the methods used to provide the risk disclosures in paragraphs 125R-125Y;	July 2009 decision
125Q If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.	
Actuarial risk and market risk 125R An entity shall disclose a sensitivity analysis showing how comprehensive income and the net defined benefit asset or liability would have been affected by changes in each actuarial assumption or market risk variable to which the entity is exposed at the end of the reporting period and that were reasonably possible at that date, unless the necessary information is not available and the cost to develop the information would be excessive;	Adapted from IFRS4 paragraph 39A(a) and IFRS 7 paragraph 40
125S If an entity does not disclose the sensitivity analysis required by 125P, it shall disclose: (a) a sensitivity analysis showing how comprehensive income and the defined benefit obligation would have been affected by changes in each actuarial assumption to which the entity is exposed at the end of the reporting period and that were reasonably possible at that date; and (b) a sensitivity analysis showing how comprehensive income and the plan assets would have been affected by changes in each market risk variable to which the entity is exposed at the end of the reporting period and that were reasonably possible at that date.	Adapted from IFRS4 paragraph 39A(a) and IFRS 7 paragraph 40
125T An entity shall disclose: (a) the methods and assumptions used in preparing the sensitivity analyses in 125P and 125Q; and (b) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.	Adapted from IFRS 7 paragraph 40.

125U	When the sensitivity analyses disclosed in accordance with paragraph 125P or 125Q are unrepresentative of a risk inherent in a defined benefit plan (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.	Adapted from IFRS 7 paragraph 42
125V	**Credit risk** An entity shall disclose by class of plan asset: (a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements (eg netting agreements that do not qualify for offset in accordance with IAS 32); (b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements; (c) information about the credit quality of financial assets that are neither *past due* nor impaired; and (d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.	Adapted from IFRS 7 paragraph 36
125W	*Plan assets that are either past due or impaired* An entity shall disclose by class of plan asset: (a) an analysis of the age of plan assets that are past due as at the end of the reporting period but not impaired; (b) an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired; and (c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value.	Adapted from IFRS 7 paragraph 37
125X	*Collateral and other credit enhancements obtained* When a defined benefit plan obtains plan assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (eg guarantees), an entity shall disclose: (a) the nature and carrying amount of the plan assets obtained; and (b) when the plan assets are not readily convertible into cash, the plan's policies for disposing of such plan assets or for using them in its operations.	Adapted from IFRS 7 paragraph 38
125Y	**Liquidity risk** An entity shall disclose: (a) a maturity analysis of the defined benefit obligation that	adapted from IFRS 4 paragraph 39(c) and (d)

shows the expected maturities	
(b) unless the necessary information is not available and the cost to develop the information would be excessive, the expected cash flows of contributions to the plan for each of the next five years. Such information shall be disaggregated into contributions required by funding arrangements or regulation, discretionary contributions and noncash contributions.	July 2009 decision
(c) to the extent not provided by (a) and (b), the best estimate of the contributions the entity expects to pay to the plan during the next annual period.	Adapted from IAS 19 paragraph 120A(q)
(d) a description of how it manages the liquidity risk inherent in (a), including the risk of any large unexpected cash outflows from the entity to the plan; (e) a narrative description of its investment strategies for plan assets. This might include details of any asset-liability matching strategies, and target allocation percentages or ranges of percentages for each major category of plan assets; and (f) a liquidity analysis of plan assets held to manage its liquidity risk (eg assets that are readily saleable, debt instruments and other types of assets expected to generate cash inflows to meet cash outflows).	July 2009 decision
Trend analysis 125Z 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 net defined benefit asset or liability; (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; and (c) a comparison of previous estimates of contributions expected to be paid as required by paragraph 125Y(b) with actual contributions paid during the same period.	Adapted from IAS 19 paragraph 120A(p) July 2009 decision
Multi-employer Plans	
125AA An entity that participates in a defined benefit multi-employer plan and accounts for the plan in accordance with paragraph 29 [ie as a db plan] shall disclose: (a) the information required for defined benefit plans in accordance with 125A to 125Z (b) the total number of, and employer's proportion of the number of: active members, retired members, and former members entitled to benefits. (c) a description of the funding arrangements including the method used to determine the participant's rate of contributions and any minimum funding requirements. (d) the extent to which the entity can be liable to the plan for	May 2009 decision

	other participants' obligations under the terms and conditions of the multi-employer plan; and (e) details of any agreed deficit or surplus allocation on wind-up, or the amount that is required to be paid on withdrawal.	
125AB	An entity that participates in a defined benefit multi-employer plan and accounts for the plan in accordance with paragraph 30 [ie as a dc plan] shall disclose: (a) the fact that the plan is a defined benefit plan; and (b) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan. (c) if known, the total number of, and employer's proportion of the number of: active members, retired members, and former members entitled to benefits. (d) a description of the funding arrangements including the method used to determine the participant's rate of contributions and any minimum funding requirements. (e) 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; and (f) details of any agreed deficit or surplus allocation on wind-up, or the amount that is required to be paid on withdrawal. (g) to the extent not provided in (d) to (f), when a surplus or deficit in the plan may affect the amount of future contributions: (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.	May 2009 decision and IAS 19 paragraph 30.