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| Project | Post-employment benefits |
| Topic | Disclosure: Approach and Objectives |

Objective

1. The objective of this paper is to provide:
 - (a) background, including:
 - (i) an overview of the Board's approach to disclosures in the exposure draft *Defined Benefit Plans* (the ED) (paragraphs 3 – 6), and
 - (ii) an overview of the responses in the comment letters to the Board's approach to disclosures together with staff analysis and view (paragraphs 7 – 13); and
 - (b) an overview of the responses to the proposals in the ED together with staff analysis and a staff recommendation for the disclosure objectives (paragraphs 14 – 21).
2. The staff recommends that the Board confirm the disclosure objectives proposed in the ED.

Background

3. In developing the proposed disclosures in the ED, the Board sought an approach that:
 - (a) provides sufficient disclosures about defined benefit plans when those plans are material to the operations of the entity.

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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- (b) provides users of financial statements with relevant information that is not obscured by excessive detail.
4. The Board's approach to disclosures, including its consideration of materiality, is discussed in paragraphs BC52 – BC55 of the Basis for Conclusions on the ED (refer to Appendix A).
5. In following this approach, the Board proposed to lay out disclosure objectives supported by more detailed disclosure requirements. The disclosure objectives proposed in the ED require an entity to disclose information that:
- (a) Explains the characteristics of the entity's defined benefit plans.
 - (b) Identifies and explain the amounts in the entity's financial statements arising from its defined benefit plans.
 - (c) Describes how defined benefit plans affect the amount, timing and variability of the entity's future cash flows.
6. The existing disclosures were re-drafted to support these objectives, and new disclosures were proposed about:
- (a) The characteristics of the defined benefit plan and amounts in the financial statements
 - (b) The amount, timing and uncertainty of cash flows

The approach to disclosures

Overview of comments received on the ED

7. Many respondents to the ED are concerned that the Board's approach will continue to result in voluminous disclosure, and not achieve the goals set out above. While many respondents supported the inclusion of disclosure objectives, they believed that supplementing the objectives with an extensive list of disclosure requirements would not achieve the result that the Board intended. Some respondents noted that this approach leads to 'one-size fits all' requirements that may not be flexible enough to adjust to each entity's

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individual circumstances. Other respondents are concerned that entities might consider the proposed disclosures in the ED to be all mandatory in all cases.

8. Many supported a more principles-based approach to disclosure that would put more emphasis on meeting the disclosure objectives. Some suggested that it would be better if the Board supported the disclosure objectives through the use of ‘encouraged but not required’ disclosures or by including examples illustrating the application of the disclosure objectives in different circumstances. Others suggested that the Board provide guidance or some discussion on the application of materiality to disclosures similar to paragraph 70¹ in the exposure draft *Revenue from Contracts with Customers*.
9. Many were concerned that some of the proposed disclosures are very broad and would result in boilerplate disclosures or would create diversity in practice through differing interpretation.
10. The EBWG met on 27 September 2010 to discuss, amongst other topics, the proposed disclosures in the ED. There was no objection from members of the Employee Benefits Working Group to the Board’s overall approach to disclosure. However members did note the difficulty faced by preparers and auditors in judging whether to include a particular disclosure. Members suggested a brief discussion, similar to paragraph 70 in the exposure draft *Revenue from Contracts with Customers*, might be helpful.

Staff analysis and view

11. The Board has indicated that the entity should exercise judgment on the extent to which information about the entity’s defined benefit plans needs to be disclosed in consideration of materiality. However, the staff notes that some respondents

¹ Paragraph 70 of the exposure draft *Revenue from Contracts with Customers* proposed that:
 An entity shall consider the level of detail necessary to satisfy the disclosure requirements and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

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are concerned that entities might have difficulty in exercising judgment when assessing the materiality of disclosures because:

- (a) there is no universal quantitative criterion to separate material disclosure items from immaterial ones for defined benefit plans; and
- (b) the notion of materiality seems best suited to a binary decision (whether to provide or omit a particular disclosure) and not well suited to determining the extent of disclosure required to meet a disclosure requirement or the overall balance with other disclosure requirements.

12. The staff believes that it is neither practicable nor sustainable to set a universal or specific quantitative criterion on materiality because materiality may depend on different risk factors and circumstances relating to individual defined benefit plans.

13. However, the staff agrees with the suggestions that a brief discussion, similar to paragraph 70 in the exposure draft *Revenue from Contracts with Customers*, might assist entities in meeting the disclosure objectives without obscuring relevant information with excessive detail. The staff believes adding such a discussion would be consistent with the Board’s approach in the ED. The staff will continue to monitor feedback on the disclosure proposals of other current Board projects in drafting the final amendment to ensure that the requirements are as consistent as possible.

The disclosure objectives

Overview of comments received on the ED

14. Question 8 of the ED asked:

The exposure draft states that the objectives of disclosing information about an entity’s defined benefit plans are:

- (a) to explain the characteristics of the entity’s defined benefit plans;
- (b) to identify and explain the amounts in the entity’s financial statements arising from its defined benefit plans; and

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(c) to describe how defined benefit plans affect the amount, timing and variability of the entity's future cash flows.

(Paragraphs 125A and BC52–BC59)

Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

15. Many respondents stated that the objectives proposed by the Board were appropriate for defined benefit plans and that they reflected the objectives of financial reporting. Some respondents stated that the Board should make more specific mention of risk in the objectives. A few respondents did not believe that the Board had made an adequate case for requiring less information on plan assets than other standards. Those with this view noted that in some jurisdictions entities have a high level of control over their plan assets.
16. Consistent with the views on the Board's approach to disclosure above, many commented that their support of the disclosure objectives was conditional on the information only being required when material, indicating a commonly-held misunderstanding about the notion of materiality as it applies to disclosure requirements.

Staff analysis and recommendation

17. Paragraphs BC56-BC59 of the ED provided explanation on the reason for setting out the disclosure objectives (refer to Appendix A).
18. There appears to be broad support for the proposed disclosure objectives and therefore the staff believes they should be reaffirmed by the Board.
19. However many respondents have suggested that the objective should refer to providing information about risk. This would be consistent with the Board's views as expressed in the Basis and would provide an explicit link to some of the new disclosure requirements discussed in Agenda Paper 11F.
20. The staff believe that disclosing information about risk could come under both paragraphs 125A(a) and 125A(c) of the objective. The requirements for disclosure include a narrative description of the extent of risks (paragraph 125C)

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to support objective 125A(a) and a sensitivity analysis and description of asset-liability matching (paragraphs 125I and 125J) to support objective 125A(c). The staff will consider how to better integrate these disclosures with objective when drafting the final amendment.

21. Consequently, the staff recommends that the Board confirm the disclosure objectives proposed in the ED.

Question

Does the Board agree to confirm the disclosure objectives proposed in the ED?

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Appendix A

This appendix provides extracts from the section on the disclosure from the Basis for Conclusions on the ED *Defined Benefit Plans*.

Disclosures**The Board's approach to disclosures about defined benefit plans**

BC52 The Board observed that:

- (a) in some cases, defined benefit plans are material to an entity's financial statements. For example, the plan assets or defined benefit obligation may be the same size as the operating assets and liabilities of the business. However, many entities have plans that are not material to their financial statements.
- (b) many respondents said that the requirements of IAS 19 do not provide an adequate basis to enable users of financial statements to understand the financial effect of liabilities and assets arising from defined benefit plans on the financial statements as a whole.
- (c) many respondents also said that the volume of disclosures about defined benefit plans in many financial statements risks reducing understandability and usefulness by obscuring important information. This is particularly true for multinational entities that have many varied plans in many jurisdictions. Accordingly, these respondents are concerned about imposing additional requirements.

BC53 The Board sought an approach that:

- (a) provides sufficient disclosures about defined benefit plans when those plans are material to the operations of the entity.
- (b) provides users of financial statements with relevant information that is not obscured by excessive detail.

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- BC54 The Board considered whether to provide specific guidance on how to apply the general notion of materiality in this context. However, entities must comply with the general requirements in IAS 1, in particular:
- (a) paragraph 31: ‘An entity need not provide a specific disclosure required by an IFRS if the information is not material’; and
 - (b) paragraph 17(c): ‘A fair presentation ... requires an entity ... to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.’
- BC55 Accordingly, the Board proposes not to provide guidance in IAS 19 on materiality, nor to require disclosures that cover all possible circumstances of every entity with a defined benefit plan. Rather, the Board proposes to articulate objectives for disclosures about defined benefit plans. This approach gives entities the flexibility to decide on an appropriate level of disclosure that enables users to see the overall picture without combining information that has different characteristics.

Selecting disclosure objectives (paragraph 125A)

- BC56 In selecting the disclosure objectives, the Board considered the following:
- (a) Defined benefit obligations have characteristics similar to some long-term financial instruments and long-term insurance contracts. Both expose the entity to similar risks, including risks that the ultimate cost of settling the liability may vary from the amount estimated and risks arising from the complexity of measuring the liability.
 - (b) Plan assets are not equivalent in every respect to assets held directly by the entity. Moreover, an entity may have limited information about them.
- BC57 The Board considered whether it should require the same disclosure objectives for defined benefit plans as for long-term financial instruments and insurance contracts. Many respondents stated that the disclosures in IAS 19 do not provide users of financial statements with the information about risk that is provided for other assets and liabilities. However, the Board concluded that much of the information required by IFRS 7 and IFRS 4 Insurance

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Contracts for assets would be unnecessary in depicting an entity's involvement with a defined benefit plan because:

- (a) the entity may not manage plan assets directly and may not have an unrestricted ability to access the economic benefits from those assets. Thus, disclosures about market risk and credit risk of plan assets are less relevant than when an entity holds those assets directly.
- (b) liquidity risk arises from the timing and amount of contributions the entity is required to make to the plan and not from the need to meet directly the payments required by the defined benefit obligation.

BC58 Furthermore, defined benefit plans create greater exposure to some risks, for example demographic risks that are not dealt with in IFRS 7.

BC59 Accordingly, the Board focused the disclosure objectives in IAS 19 on the matters most relevant to users of the employer's financial statements, ie information that:

- (a) explains the characteristics of the defined benefit plans.
- (b) identifies and explains the amounts in the financial statements arising from the defined benefit plans.
- (c) describes how involvement in defined benefit plans affects the amount, timing and uncertainty of the entity's future cash flows.