

Project **Post-employment benefits**

Topic **Disaggregation**

Objective

1. This paper provides:
 - (a) an overview of the proposals in the exposure draft *Defined Benefit Plans* (the ED) relating to the disaggregation of changes in the defined benefit obligation and the fair value of plan assets. (paragraphs 4 - 5)
 - (b) an overview of responses to the ED (paragraphs 6 – 9)
 - (c) a staff analysis and recommendation (paragraphs 10 –13)
2. The staff recommends that the Board confirms that:
 - (a) entities should disaggregate changes in the defined benefit obligation and the fair value of plan assets into service cost, finance cost and remeasurement components (Question 3).
 - (b) service cost should exclude gains and losses arising from changes in the estimates of assumptions used to measure the service cost (Question 4).
3. This paper does not discuss whether an entity should present the disaggregated components separately on the statement of financial performance, rather than just in the notes, nor does it discuss whether an entity should present them in profit and loss or in other comprehensive income. The staff will ask the Board to discuss those issues in the next Board meeting.

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB working group identified in the header of this paper.

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

The meeting at which this paper is discussed is a public meeting but it is not a decision-making meeting of the Board. Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

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The ED proposals

4. The ED proposed that entities disaggregate changes in the defined benefit obligation and the fair value of plan assets into service cost, finance cost and remeasurement components.
5. Service cost comprises current service cost and past service cost. The ED proposed that service cost should exclude gains and losses arising from changes in the estimates of assumptions used to measure the service cost because, in the Board's view, the predictive value of service cost differs from the predictive value of changes in the estimate of service cost. Consequently, the service cost component would be more relevant to users of financial statements in assessing an entity's ongoing operational costs if it did not also contain current period changes in past estimates of service cost.

Overview of comments received on the ED

6. Questions 3 and 4 of the ED asked respondents the following:

Question 3

Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?

Question 4

Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?

7. Most respondents agreed with the Board's views and the proposals in the ED.
8. The few respondents that disagreed with the disaggregation raised the following concerns:
 - (a) some believe that the determination of an appropriate disaggregation method is intrinsically linked to the accounting model and as such it should be considered as part of a fundamental review of IAS 19.

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- (b) some believe that the Board should defer consideration of disaggregation until it considers it more broadly in the Financial Statement Presentation (FSP) project.
 - (c) some believe that the amounts should be presented in aggregate as a net amount related to labour cost, or personnel expense. Preparers that prefer this approach view the finance cost as arising due to the service cost and therefore view the service cost and the finance cost as a single component related to operating activities instead of financing activities. Some users also prefer this approach because it allows them to analyse an entity and the effect of its pension plan separately, rather than disaggregating the changes and presenting them together with non-pensions items.
9. The few respondents that disagreed with excluding changes in estimates from the service cost component did so because they did not believe there was a suitable basis for recognising the effects of changes in defined benefit plan assumptions differently from changes in other financial statement assumptions. It is not clear whether these are remeasurements or changes in estimates under IAS 8.

Staff analysis and recommendation

10. The staff believes that, while disaggregation is the step before presentation, it should be considered separately from the issue of how to present the components on the statement of comprehensive income. In the next meeting, the staff expects the Board to consider whether an entity should present the components separately or in aggregate, and where an entity should present the components on the statement of comprehensive income. What the staff is asking the Board to consider today is whether the items that comprise the changes in defined benefit cost have different characteristics and whether it would be relevant to users for entities to disaggregate those items into components.

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11. The Board has yet to answer some general questions about performance reporting, including disaggregation, in its FSP project. However, the Board has previously decided that it should address presentation of post-employment benefit costs in this project now, rather than risk delaying progress by waiting for the FSP project to address disaggregation.
12. The staff agrees with the majority of the comment letters that the following components of changes in defined benefit cost have different characteristics and the characteristics are different enough that these components ought to be disaggregated into:
 - (a) the service cost that arises from employees providing service and accruing additional benefits,
 - (b) the finance cost that arises from the deferral of payment of those benefits and
 - (c) remeasurements of the service and finance costs.
13. Regarding whether changes in demographic assumptions should be part of the service cost component or the remeasurements component, the Basis for Conclusions explains that the Board was persuaded that the predictive value of service cost differs from the predictive value of changes in the estimate of service cost. Consequently, the service cost component would be more relevant for assessing an entity's ongoing operational costs if it did not also contain current period changes in past estimates of service cost. The staff does not believe that the responses to the proposals provide any additional information that invalidate these views.

Question 1

Does the Board confirm the proposals in the ED that:

- (a) entities should disaggregate changes in the defined benefit obligation and the fair value of plan assets into service cost, finance cost and remeasurement components (Question 3)?

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(b) service cost should exclude gains and losses arising from changes in the estimates of assumptions used to measure the service cost (Question 4)?

If not, what do you propose and why?