

---

Project	<b>Post-employment benefits</b>
Topic	<b>Feedback on tentative decisions</b>

---

## Objective

1. This paper provides a summary of the feedback from the Employee Benefits Working Group members that the Board requested on particular tentative decisions to date and includes a staff recommendation for any amendments required for those decisions.
2. In summary, the staff recommends that:
  - (a) disaggregation of the defined benefit obligation would be required at a minimum when an actuarial valuation is performed, and that entities be required to carry forward this information in periods when no actuarial valuation is performed;
  - (b) an entity should disclose the duration of the liability; and
  - (c) costs related to managing plan assets should be deducted from the return on plan assets, with no specific requirements for the presentation of other administration costs.

## Summary of feedback and staff recommendations

3. The Board requested the staff to seek input from the Employee Benefits Working Group and further explore the following tentative decisions:
  - (a) disclosure, including:

---

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.

IASB Staff paper

- (i) risk exposure (paragraphs 4 - 6)
  - (ii) disaggregating the defined benefit obligation (paragraphs 7 - 10)
  - (iii) information about the maturity profile of the defined benefit obligation (paragraphs 11 – 13)
- (b) accounting for administration costs, including whether to expense all administration costs as part of service cost or whether the administration costs should be split between costs of managing plan assets and other costs (paragraphs 14 - 20).

***Risk exposure***

4. The Board tentatively decided to focus the disclosure of risks that the participation in a defined benefit plan exposes the entity to risks that are unusual or specific to the entity, without requiring excessive detail about generic risks.
5. Feedback from working group members on whether this disclosure should be limited to unusual or specific (to avoid boilerplate disclosure of generic risks) was generally inconclusive. Working group members noted that in determining what is specific or unusual, an entity would have to consider the level of knowledge of the users, and where they come from, which may be difficult. For example, disclosure of the risks that exist in a particular jurisdiction may not be specific to the entity of that jurisdiction, and a user from that jurisdiction would be aware of such risks, however a user from another jurisdiction may not be aware of such risks.
6. Working group members favoured allowing entities and their auditors to apply professional judgment in determining the appropriate level of disclosure of significant risks required in order to meet the objectives. The staff do not think any amendment will be required to the Board's tentative decision, however the staff will consider providing some explanatory guidance in the final amendment to help entities apply the disclosure requirement.

**Question 1**

## IASB Staff paper

Does the Board agree that no change is required to the tentative decision to focus the disclosure of risks that the participation in a defined benefit plan exposes the entity to risks that are unusual or specific to the entity, without requiring excessive detail about generic risks?

***Disaggregating the DBO***

7. The feedback from working group members was less supportive of the requirement to disaggregate the defined benefit obligation in order to provide users with information about the risk characteristics (for example, by distinguishing between active members, non-active members and pensioners or by distinguishing between vested, accrued and conditional benefits). Many working group members noted that a disaggregation of the defined benefit obligation would be costly, difficult to prepare for balance dates where an actuarial valuation is not undertaken and could be difficult if a different disaggregation is used for each plan.
8. Typically, an actuarial valuation is only undertaken periodically, and a roll-forward procedure is used to calculate an estimate of the defined benefit obligation for periods between actuarial valuations. Disaggregating a defined benefit obligation that is estimated using roll-forward procedures would require the roll-forward to be performed on a disaggregated basis, which, while possible, would be difficult and costly to perform. Many suggested that the benefits of an estimate of the disaggregation based on a roll-forward of the defined benefit obligation would not outweigh the costs of preparing it.
9. In addition, some working group members were supportive of the approach the Board has tentatively decided to take regarding the disaggregation of plan assets (ie articulating the principle of differentiating between plan assets with different risk and liquidity characteristics, supported by a list of example categories illustrating the principle). Some working group members suggested a similar approach should be adopted for the defined benefit obligation, provided that a disaggregation would be required only for dates for which an actuarial valuation was performed.

IASB Staff paper

10. The staff agrees with the suggestions from the working group and recommends that the Board modify its tentative decision regarding the disaggregation of the defined benefit obligation, requiring it at a minimum when an actuarial valuation is performed. This information should be carried forward in periods where no actuarial valuation is performed.

**Question 2**

Does the Board agree with the staff recommendation that disaggregation of the defined benefit obligation would be required at a minimum when an actuarial valuation is performed?

Should entities be required to carry forward this information in periods when no actuarial valuation is performed?

***Information about the maturity profile of the DBO***

11. The feedback from working group members has been supportive of the requirement to provide information about the maturity profile of the defined benefit obligation. The staff asked the working group specifically whether an analysis of benefit payments should include the future service cost (ie so the analysis reflects the actual payments expected) or exclude the future service cost (ie so the analysis reflects only current and past service, and therefore should reconcile back to the defined benefit obligation). In terms of implementing these approaches, working group members with an actuarial background noted that both approaches could be calculated. However working group members noted that an analysis that excludes future service would be more consistent with the other amounts recognised in the financial statements.
12. Working group members noted that the duration of the liability should be required at a minimum, however the maturity analysis would be useful in particular circumstances as well. Working group members noted the usefulness of the duration when disclosed together with other information such as the discount rate.
13. The staff agrees with the suggestions from the working group and recommends that the Board modify its tentative decision regarding information about the

## IASB Staff paper

maturity profile of the defined benefit obligation to require disclosure of the duration as a minimum, but providing examples of additional disclosure that may meet the objective (such as a maturity analysis of the defined benefit obligation for unfunded plans).

**Question 3**

Does the Board agree with the staff recommendation that an entity should disclose the duration of the liability as a minimum?

**Administration costs**

14. Working group members were supportive of the Board's intention to find a pragmatic solution to the accounting for administration costs. Most supported recognising these costs when the administration services are provided. In terms of presentation, most supported the split that was proposed in the 2010 ED (ie between costs of managing plan assets and other administration costs).
15. Members of the working group think that the costs of managing plan assets are an integral part of the return on the plan assets and therefore should be presented together with those returns. In addition, members noted that:
  - (a) it may not always be possible to differentiate costs of managing plan assets from the return on plan assets. This may be the case where the costs of managing plan assets are indirect or implicit, such as in the buy/sell spread, or part of the return of assets that are, in turn, held by other plan assets (such as funds of funds);
  - (b) if an entity presents the return from active management in other comprehensive income but presents the cost of that active management in profit or loss, this would create a mismatch. This may also lead to different accounting for funded and unfunded plans with economically similar defined benefit obligations.
  - (c) asset management costs do not relate to service provided by the employee.

IASB Staff paper

16. There were mixed views from members regarding the presentation of other administration costs. Some noted that other administration costs could be presented as part of current service cost, however others noted that this would appear odd for closed plans. Members also noted that other administration costs for unfunded plans are typically presented together with the general administration costs of the entity.
17. Members noted that in some cases a total fee is charged for both plan asset management and other administration services, however they think that the other administration services would not be overly costly or difficult to estimate under these circumstances. It would simply be a matter of estimating the administration costs if there were no plan assets, or by observing the prices for such services in the market.
18. The staff agrees with the views of working group members regarding the presentation of costs related to managing plan assets, and recommends that these are deducted from the return on plan assets.
19. Regarding other administration costs, the staff has identified the following alternatives:
  - (a) present other administration costs as part of service cost. The advantages of this approach would be to improve comparability, however this may result in service cost where no service is being provided (ie closed plans), and would require entities to determine what costs should be included (ie whether to include a portion of the CEOs salary as part of service cost);
  - (b) stay silent on the presentation of other administration costs. The advantage of this approach is that it will allow an entity to present these costs as appropriate, however this may also lead to diversity in practice and therefore may not improve comparability.
20. As noted by working group members, the nature of other administration costs may depend on the type of plan (such as whether the plan is funded, unfunded, separate from the entity, closed etc). Therefore the staff recommends that the

IASB Staff paper

Board require costs related to managing plan assets to be deducted from the return on plan assets and remain silent regarding the presentation of other administration costs.

**Question 4**

Does the Board agree with the staff recommendation that costs related to managing plan assets should be deducted from the return on plan assets, with no specific requirements for the presentation of other administration costs?