IFRS

STAFF PAPER

January 2020

IASB® Meeting

Project	**Disclosure Initiative: Targeted Standards-level Review of Disclosures**		
Paper topic	Expected future cash flows for defined benefit plans		
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Purpose and structure of this paper

1. The purpose of this paper is to present staff analysis and recommendations about items of information to meet the specific disclosure objective about expected future cash flows for defined benefit plans. This paper also addresses concerns on this topic raised by some Board members at the November 2019 Board meeting.

2. This paper is structured as follows:

   (a) Staff recommendation (paragraphs 3-4)

   (b) Background (paragraphs 5-7)

   (c) Staff analysis (paragraphs 8-42)

      (i) User needs (paragraphs 8-10)

      (ii) Board tentative decisions about the specific disclosure objective (paragraphs 11-14)

      (iii) Items of information that directly meet the specific disclosure objective (paragraphs 15-24)

      (iv) Other items of information to satisfy user needs (paragraphs 25-35)

      (v) Scenarios for illustrative examples (paragraphs 36-42)

   (d) Conclusion and questions for the Board (paragraphs 43-44)

   (e) Appendix—Illustrative examples

Staff recommendation

3. We recommend that the Board:

   (a) amend the specific disclose objective to clarify that the objective is intended to capture information about the expected effect of the defined benefit obligation on the *entity's* future cash flows.

   (b) include in IAS 19 that, while not mandatory, the following items of information may enable an entity to meet the specific disclosure objective:

      (i) description of funding arrangements or policies that affect any expected future contributions to meet *the defined benefit obligation that exists at the end of the reporting period*. This could include any agreements reached with plan trustees or managers.

      (ii) quantitative information about the expected future contributions to meet *the defined benefit obligation that exists at the end of the reporting period*.

      (iii) description of regulatory or other agreements that affect any expected future contributions. This could include any known minimum funding requirements, or any agreed funding commitments in reasonable time bands.

      (iv) information about the expected pattern or rates of future contributions. For example, whether expected future contributions are expected to be greater than, similar to, or less than those made in the current reporting period, and why.

4. Furthermore, we recommend that the Board include explanatory application guidance in IAS 19 to explain how an entity applies judgement to determine when the items of information in paragraph 3(b) might be most relevant in its own particular circumstances.

Background

5. In its July 2019 meeting, the Board tentatively decided to include the following specific disclosure objective in IAS 19 for defined benefit plans (referred to throughout this paper as 'the objective'):

> An entity shall disclose information that enables users of financial statements to understand the expected future cash flows resulting from the defined benefit obligation and the nature of those cash flows.

6. At that meeting, the Board also tentatively decided to explain in IAS 19 that users need such information to:

   (a) evaluate and forecast the impact of the defined benefit obligation on the entity's future cash flows; and

   (b) assess how the defined benefit plans impact the entity's economic resources, for example its ability to pay dividends.

7. In its November 2019 meeting, the Board discussed items of information that an entity could use to meet the objective in paragraph 5 and illustrative examples (see ***November 2019 Agenda Paper 11B***). However, a few Board members expressed concerns about whether that list of items clearly communicated what the Board expects to be disclosed to meet user needs in this area. Specifically, Board members were concerned about whether:

   (a) it is clear that the Board only expects disclosure about future cash flows that the entity may have to make, and not for example, information about future cash flows that the plan has to make directly to the plan members.

   (b) the list clearly distinguished items of information that *directly* meet the specific disclosure objective from other items of information that go beyond the objective but would be helpful in meeting user needs.

   (c) the illustrative examples fairly reflected the period of time over which the Board expects an entity to provide disclosure.

Staff analysis

User needs

8. Our outreach with users of financial statements identified that information about expected future cash flows is the most relevant information for their analysis about defined benefit plans. In our subsequent outreach, other stakeholders also agreed that such information would be very useful to users.

9. The expected effect of defined benefit plans on an entity's future cash flows can provide two types of information:

   (a) information about expected future cash flows to meet the defined benefit obligation *that exists* at the end of the reporting period. That is, expected future cash flows an entity may have to make to meet the defined benefit obligation at the end of the reporting period for a plan that is wholly unfunded or partly funded. This will reflect only cash flows needed to meet obligations relating to employee services received in current and prior periods.

   (b) information about expected future cash flows relating to defined benefit obligations *that do not yet exist* at the end of the reporting period. This will reflect cash flows relating to employee services to be received in future periods from existing plan members.

10. The users we spoke to would like to understand the total expected future cash flows—i.e. the two types of information in paragraph 9. In essence, these users would like to have a holistic view about how the defined benefit plan is expected to affect the entity's cash flows in the future. However, many users told us that they treat the two types of information differently in their analysis. Therefore, they would like any information about future cash flows to clearly differentiate between the two.

Board tentative decisions about the specific disclosure objective

11. The specific disclosure objective the Board tentatively decided upon does not require an entity to disclose information about expected future cash flows relating

to defined benefit obligations that do not yet exist at the end of the reporting period.

12. The Board made this decision in light of the guidance in paragraph 3.6 of the Conceptual Framework. That guidance states that financial statements do not typically provide forward-looking information such as that in paragraph 9(b). That is, financial statements typically only provide information that relates to the entity's assets and liabilities that exist at the end of the reporting period.

13. Therefore, the specific disclosure objective captures only information about if, whether, and how, the entity plans to settle the defined benefit obligation that exists at the end of the reporting date. The reference to the *entity's* future cash flows in the explanation of why users need such information—see paragraph 6—specifies that the future cash flows captured by the objective are those the *entity* may have to make and *not* future cash flows made from the plan to its plan members. However, we think it would be useful to clarify within the objective itself and recommend that the Board makes an amendment to this effect. This is reflected in our staff recommendations and questions for the Board in paragraphs 43-44.

14. Although the specific disclosure objective captures only the user needs in paragraph 9(a), the Board asked the staff to consider how to incorporate information about *total* expected future cash flows as part of the items of information to be associated with the objective. While going beyond the typical remit of financial statements, such information could meet the specific disclosure objective in a way that is most useful to users and feasible for companies to prepare at reasonable cost. Specifically, the Board asked the staff to consider both:

    (a) items of information that directly meet the objective (paragraphs 15-24); and

    (b) other items of information that go beyond the scope of the objective but would be an effective and helpful way to satisfy overall user needs (paragraphs 25-35).

Items of information that directly meet the specific disclosure objective

15. In our outreach with stakeholders:

    (a) most users suggested that quantitative information about the expected future contributions that the entity may have to make to meet the defined benefit obligation would satisfy their needs. Furthermore, they said the information could be based on agreements with the trustees or managers of the plan, or based on management's expectations and forecasts.

    (b) a few other users also suggested that narrative information about the entity's existing commitments to provide future funding to meet the defined benefit obligation would be useful.

Quantitative information

16. In light of user feedback, we think the Board should specify that, while not mandatory, quantitative information about the expected future contributions to meet the defined benefit obligation *that exists at the end of the reporting period* may enable an entity to meet the objective.

17. In practical terms, we think this means that:

    (a) if plan assets fully meet the defined benefit obligation at the end of the reporting period (i.e. a wholly funded plan), an entity may not need to disclose any such information.

    (b) if there are no plan assets, or the plan assets do not sufficiently meet the defined benefit obligation at the end of the reporting period (i.e. a wholly unfunded plan or a partly funded plan), an entity may need to disclose such information in order to satisfy the objective.

18. Users suggested that any quantitative information about future contributions to meet the defined benefit obligation would be useful, regardless of whether the information is based on agreements or based on management's expectations and forecasts. Consequently, we think the Board should not specify the basis on which entities provide this information—that is, we think entities should be able to provide the information based on either agreements or on management's expectations and forecasts.

19. We acknowledge concerns that information based on management expectations and forecasts is not typically provided in financial statements and may be difficult to audit. However, we think these concerns can be effectively managed. This is because:

(a) such information would be one way to meet the objective. Therefore, it provides ideas to entities about what to disclose rather than specify what must be disclosed. If it is not helpful or appropriate for a particular entity to provide information on this basis (for example, if the entity does not have a robust and approved forecast), it can find an alternative basis to provide information that meet the objective.

(b) we think the audit challenges would not be greater than those associated with other judgemental areas of the financial statements. For example, if information is identified in the financial statements as being based on expectations or forecasts, we would expect auditors to have access to management's approved forecasts.

20. Furthermore, we observe that information about future cash flows provided on the basis of existing agreements is already required in IFRS Standards today. For example, paragraph 59 of IFRS 16 requires an entity to disclose additional information about future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities.

Narrative information

21. Staff think that narrative information would also be helpful in this area.

22. We understand that some entities in a partly funded or a wholly unfunded plan may not have any specific commitments to provide future funding relating to the defined benefit obligation that exists at the end of the reporting period. This might be the case, for example, if the entity has agreed with the plan trustees or managers alternative means by which the defined benefit obligation will be addressed in future (for example, an alternative asset investment strategy with potentially higher returns). In such cases, we think that an explanation about, for example, the following would provide useful information to satisfy the objective:

(a) *whether* the entity has any existing commitments to fund the defined benefit obligation that exist at the end of the reporting period in future; and

(b) any alternative means by which the entity has agreed to address the defined benefit obligation.

23. Furthermore, we think narrative information would also be useful from those entities that *do* have specific commitments to provide future funding to meet the defined benefit obligation that exists at the end of the reporting period. For example, those entities could provide information about the basis on which those expected future contributions have been determined.

24. Therefore, we think the Board should specify that while not mandatory, if there are funding arrangements or policies that affect any expected future contributions to meet the defined benefit obligation *that exists at the end of the reporting period*, descriptions of them may enable an entity to meet the objective. This could include any agreements reached with plan trustees or managers.

Other items of information to satisfy user needs

25. As discussed in paragraphs 11-12, the specific disclosure objective, which an entity would be required to comply with, does not capture expected future cash flows for defined benefit obligations *that do not yet exist* at the end of the reporting period.

26. However, in our outreach, users said that an effective way to satisfy the objective would be to disclose quantitative information about the *total* expected future contributions that the entity may have to make into the plan with clear disaggregation into:

(a) expected future contributions to meet the defined benefit obligation that exists at the end of the reporting period; **and**

(b) other expected future contributions to meet defined benefit obligations that do not yet exist at the end of the reporting period.

27. In practical terms, this means an entity with a plan that is open to new members or with a closed plan under which existing members continue to accrue benefits, may consider disclosing the alternative quantitative information in paragraph 26

instead of that described in paragraph 16. The alternative information would not be relevant for an entity with a plan that is closed to new members and to the accrual of further benefits to existing members. This is because all their expected future cash flows will be those described in paragraph 16.

28. The alternative information in paragraph 26 was discussed at the June 2019 joint meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF). Feedback from GPF members indicated that the cost of providing the information would not be onerous.

29. However, notwithstanding feedback from GPF members, we understand that entities in some jurisdictions may not always have sufficient information to provide the disaggregation, as described in paragraph 26. For example, those entities may assess their future funding commitments into the plan on a holistic basis that does not differentiate by nature of the future cash flows. We understand that in some jurisdictions, such an approach is in line with regulatory minimum funding requirements.

30. We think the Board needs to strike a reasonable balance between meeting the needs of users in the most effective way possible, and only including a discussion of items of information that are feasible for preparers to produce. Therefore, we do not recommend including disaggregation of the *total* expected future cash flows as a way of meeting the objective. This is because we think it would not be feasible for some entities in particular jurisdictions to provide this.

31. Instead we think, for those plans referred to in paragraph 27, overall user needs can alternatively be met by disclosure of:

    (a) narrative information about regulatory or other agreements that affect any expected future contributions. This could include, for example, any known minimum funding requirements, or any agreed funding commitments in reasonable time bands. By reasonable time bands, we mean the time bands that provides the most useful information about the commitments that have been agreed.

    (b) information about the expected pattern or rates of future contributions. For example, an entity might disclose whether expected future contributions are expected to be greater than, similar to, or less than those made in the current reporting period, and explain why.

32. These disclosure items differ to those discussed in paragraphs 15-24 because they do not refer directly to the defined benefit obligation that exists at the end of the reporting period. Instead, they offer an entity the possibility of providing information that presents a holistic view of any existing commitments it has towards funding the plan as a whole in future.

33. A few Board Members have raised concerns about including additional items of information that go beyond the remit of the specific disclosure objective. In particular, those members are concerned that it could undermine the Board's objective-based approach to setting disclosures. We think this is a valid concern because a key benefit of the objectives-based approach is that the items of information should be clearly linked to the related objective.

34. However, we think it is reasonable to include the alternative items of information in paragraph 31 as possible ways to satisfy the objective because:

    (a) we are sympathetic to the fact that users' underlying need in this area is to get an indication about the expected effect of the plan on the entity's *total* future cash flows.

    (b) for the reasons described in paragraph 29, we think that for entities in particular jurisdictions, this information may already exist, and therefore may be easier to obtain than other items of information.

    (c) some evidence[1] suggests that many plans are closed to both new members and to the accrual of further benefits to existing members. Therefore, we think many entities would likely satisfy the objective using the item of information discussed in paragraphs 15-24.

35. Nonetheless, we think it would be helpful for the Board to include application guidance in IAS 19 that explains how an entity applies judgement to determine when the items of information about expected future cash flows might be most

[1] This includes from our detailed outreach with stakeholders, feedback from consultative groups and pension disclosure reports such as the [November 2017 UK FRC Corporate Reporting Thematic Review on Pension Disclosures].

relevant in its own particular circumstances. That application guidance could highlight a number of considerations in this paper, for example:

(a) whether the plan is closed or open to new members and to the further accrual of benefits to new members (see paragraph 27). For a plan that is closed to new members and to the further accrual of benefits to existing members, the items of information that go beyond the objective (discussed in paragraphs 31-34) will not be applicable.

(b) whether the expected future contributions are determined for the plan as a whole rather than differentiating between those relating to the existing deficit and those relating to future defined benefit obligation. For example, contributions might be determined for the plan as a whole if the contributions expected to be made are those specified by local laws and regulations. In this case, the items of information that go beyond the objective (discussed in paragraphs 31-34) are more likely to be applicable.

Scenarios for illustrative examples

36. In its November 2019 meeting, the Board was presented with two examples to illustrate the information an entity might disclose to meet the specific disclosure objective. Those examples addressed each of the following scenarios:

(a) example 1—expected future contributions to meet the defined benefit obligation that exists at the end of the reporting period, provided on the basis of agreements with plan trustees.

(b) example 2—*total* expected future contributions into the plan, provided on the basis of agreements with plan trustees.

37. A few Board members said any examples should clearly indicate the period of time over which the Board expects an entity to provide disclosure.

38. In developing the specific disclosure objective at its July 2019 meeting, the Board considered whether the objective should specify a period of time over which an entity should disclose information about expected future cash flows. The Board decided not to mandate such a period of time because an entity may not have reliable information beyond a certain point—and that point may be different for

different entities. Therefore, the specific disclosure objective the Board has tentatively decided on, and the items of information discussed in this paper, do not refer to a specific period of time.

39. Indeed, staff continue to think entities should be given the flexibility to provide information in this area that is realistic to prepare and provides useful information. For some entities, this could mean providing information about the expected future contributions to meet the defined benefit obligation at the end of the reporting period until the year of the last expected contribution. We think this is likely to be the case for entities where the expected future contributions are based on specific agreements with trustees or managers of the plan. For other entities, this could mean providing the expected future contributions to meet the defined benefit obligation for a few years only.

40. However, in light of Board Member feedback, we think the examples did not appropriately reflect the different ways in which an entity could satisfy the objective. This is because both examples illustrated the expected future contributions:

    (a) up until the last contribution to meet the defined benefit obligation that exists as at the end of the reporting period; and

    (b) on the basis of agreements with plan trustees.

41. Consistent with our recommendations in this paper, we think the examples should instead address each of the following scenarios:

    (a) example 1—expected future contributions to meet the defined benefit obligation that exists at the end of the reporting period, provided on the basis of managements' expectations.

    (b) example 2—expected future contributions to meet the defined benefit obligation that exists at the end of the reporting period, provided on the basis of agreements with plan trustees.

    (c) example 3—pattern of expected future contributions for the next few years relative to contributions made during the current reporting period, provided on the basis of regulatory requirements.

42. The appendix to this paper provides updated illustrative examples.

Staff conclusion and questions for the Board

43. Based on the analysis in paragraphs 11-35, we recommend that the Board

(a) amend the specific disclose objective to clarify that the objective is intended to capture information about the expected effect of the defined benefit obligation on the *entity's* future cash flows. We think the Board could do this in a similar way to the following (new text underlined, deleted text struck through):

> An entity shall disclose information that enables users of financial statements to understand the expected <u>effect of</u> ~~future cash flows resulting from~~ the defined benefit obligation <u>on the entity's future cash flows</u>, and the nature of those cash flows.

(b) include in IAS 19 that, while not mandatory, the following items of information may enable an entity to meet this specific disclosure objective:

(i) description of funding arrangements or policies that affect any expected future contributions to meet *the defined benefit obligation that exists at the end of the reporting period*. This could include any agreements reached with plan trustees or managers.

(ii) quantitative information about the expected future contributions to meet *the defined benefit obligation that exists at the end of the reporting period*.

(iii) description of regulatory or other agreements that affect any expected future contributions. This could include any known minimum funding requirements, or any agreed funding commitments in reasonable time bands.

(iv) information about the expected pattern or rates of future contributions. For example, whether expected future contributions are expected to be greater than, similar to, or less than those made in the current reporting period, and why.

44. Furthermore, we recommend that the Board include explanatory application guidance in IAS 19 to explain how an entity applies judgement to determine

which of the items of information in paragraph 43(b) might be most relevant in its own particular circumstances.

Question for the Board
1. Does the Board agree with the staff recommendation in paragraph 43?
2. Does the Board agree with the staff recommendation in paragraph 44?

Appendix—Illustrative examples

A1. The following examples illustrate the information an entity might disclose to meet the specific disclosure objective discussed in this paper.

Example 1—Expected future contributions to meet the defined benefit obligation that exists at the end of the reporting period on the basis of management expectations

The Group has a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 2002 and closed to future accrual on 28 October 2013.

As at 31 December 2018, the defined benefit liability was £300 million demonstrating that the fair value of the plan assets is not sufficient to meet the expected future benefit payments.

The Group has no specific arrangements with the plan trustees on how the funding deficit will be eliminated in future. However, we have a plan to make employer deficit contributions totalling approximately £120 million over the next three annual reporting periods. This estimate of future contributions, which will only be made to the extent that the deficit remains, has been developed based upon the advice of professional advisers and in-house experts.

Example 2—Expected future contributions to meet the defined benefit obligation that exists at the end of the reporting period on the basis of agreements with plan trustees

The Group has a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 2002 and closed to future accrual on 28 October 2013.

As at 31 December 2018, the defined benefit liability was £300 million demonstrating that the fair value of the plan assets is not sufficient to meet the expected future benefit payments. The funding deficit will be met over a period of 6 years, in line with the table below:

Year to 31 March (£m)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Employer contributions	63	78	78	78	78	45

The contributions have been calculated using actuarial assumptions agreed with plan trustees based on an assessment performed on 31 March 2018. Those contributions will only be required to be paid to the extent that the deficit remains at the preceding 31 December. The next funding assessment with the plan trustees will have an effective date of no later than 30 June 2021.

Example 3—Pattern of expected future contributions on the basis of regulatory requirements

The Group has a number of defined benefit plans that provide pension and other post-retirement benefits to most employees. These plans were closed to new employees on 31 January 2002 but continue to accrue benefits for existing employees.

As at 31 December 2018, the defined benefit liability was £551 million demonstrating that the fair value of the plan assets is not sufficient to meet the expected future benefit payments.

Our policy is to contribute annually, at a minimum, amounts required by applicable laws and regulations. In 2018, we contributed £195 million, most of which were mandatory contributions to our defined benefit plans. Based on our current assumptions, including the number of employees eligible for benefits, over the next three years, we expect no significant mandatory contribution rate changes to our plans. Therefore, we expect to continue to contribute about £195 million from cash and cash equivalents into the defined benefit plan for the next three annual reporting periods.