Project	**Post-employment benefits**
Topic	**Disclosure: Other disclosures**

Objective

1. The objective of this paper is to provide an overview of the responses to the proposals in the ED together with staff analysis and a staff recommendation for:

   (a) disclosures proposed in the ED for which there was no specific question in the invitation to comment; and

   (b) disclosures that respondents suggested should be added to the requirements.

2. The staff recommends that the Board:

   (a) additionally require

      (i) disclosure of the duration of the defined benefit obligation; and

      (ii) a 'stand-back' requirement to disclose whatever additional information is necessary to meet objectives; and

   (b) not make the proposed list of asset categories for plan assets a minimum requirement but an example for the entity to adapt its disclosure from, with the proposed disaggregation into government debt instruments and other debt instruments replaced with the example of disaggregation into high quality debt instruments and other debt instruments.

Comments received on the ED

3. Question 12 of the ED asked respondents whether they have any other comments about the proposed disclosure requirements.

4. Among notable responses are:

   (a) Users of financial statements are particularly interested in the period of time over which the liabilities of the defined benefit scheme mature.

   (b) The Board should require the following disclosures only if they are material:

      (i) The effect of the regulatory framework in which the plan operates, for example the effect of any minimum funding requirements (paragraph 125C(a)(ii) of the ED).

      (ii) A description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees (paragraph 125C(a)(iii) of the ED).

   (c) The amended IAS 19 should include a requirement that entities disclose additional information necessary to meet the objectives in the standard.

   (d) Some state that the Standard should not mandate segregation of assets into specific classes of investments (as proposed in paragraph 125F). The requirements should be flexible enough to allow entities to adapt their disclosures based on the nature and risks of assets in the plans. Others were supportive of mandating disaggregation of assets into specific classes, but believed that some of the disaggregation criteria proposed are not appropriate.

      (i) Some are of the view that the requirement to disaggregate debt and equity instruments into those that have a quoted market price and those that do not would result in extensive disclosures that are unlikely to add much to the understandability of the accounts.

      (ii) Some think that the requirement to split debt instruments into government debt instruments and other debt instruments would not be relevant for users as recent events have shown that some government debt instruments may have poorer credit ratings than other debt instruments. In their opinion, it may be more helpful if credit ratings were used as a criterion for disaggregation of plan assets.

Staff analysis and recommendation

Duration of the defined benefit obligation

5. Some respondents propose the Board should require the disclosure referred to in paragraph 24 of UK ASB Reporting Statement: *Retirement Benefits – Disclosure*. This states:

> In order to evaluate the economic resources available to the entity, users of financial statements are particularly interested in the period of time over which the liabilities of the defined benefit scheme mature. A measure of this is the duration of scheme liabilities, which should be disclosed in the financial statement.

6. The Reporting Statement defines 'duration of scheme liabilities' as

> The duration of the scheme liabilities is a measure of how long on average it is until the benefits of the scheme fall due. This is the weighted average time to payment of the cash flows, weighted by the present value of the cash flows (ie on a discounted basis).

7. The staff agrees with the rationale in the appendix of the Reporting Statement disclosing the duration of the defined benefit obligation could help users to understand the profile of cash flows, in particular how long on average the liabilities of a defined benefit plan mature. Users are particularly interested in the period over which the defined benefit obligation matures. Maturity analyses are required in other IFRSs, such as IFRS 7 paragraph 39, to provide users with such information. The staff has recommended the disclosure of the amount of expected benefit payments in Agenda Paper 11F. The disclosure of the average duration provides similar information, but from a different perspective, enhancing the usefulness of both disclosures.

8. Therefore, the staff thinks that the disclosure of the duration of the defined benefit obligation would complement a user's understanding of:

   (a) the disclosure of the amount of expected benefit payments, which is recommended by the staff in Agenda Paper 11F.

   (b) the discount rate, because it will facilitate comparability of the discount rate between entities.

9. Consequently, the staff recommends that the Board additionally require disclosure of the duration of the defined benefit obligation.

Require some disclosures only if material

10. Agenda Paper 11E already provides staff analysis of the 'materiality' issue on a broader basis (Refer to paragraphs 11-13 of that paper). As noted in paragraphs BC54-BC55 of the ED, the Board already indicated that it did not intend to require disclosures that cover all possible circumstances of every entity with a defined benefit plan and thus 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. This indication is warranted by paragraph 31 of IAS 1, which states:

    > An entity need not provide a specific disclosure required by an IFRS if the information is not material.

11. The staff agrees with the suggestions that a brief discussion, similar to paragraph 70 in the exposure draft *Revenue from Contracts with Customers*, could be included to assist entities in meeting the disclosure objectives without obscuring relevant information with excessive detail. Paragraph 70 in the exposure draft *Revenue from Contracts with Customers* states:

    > 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.

12. 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.

Require disclosure of additional information required to meet objectives

13. Respondents suggested that the Board should include a paragraph similar to paragraph 71 of the exposure draft *Revenue from Contracts with Customers*, which states:

> If the disclosures provided in accordance with this [draft] IFRS and other IFRSs do not meet the objective in paragraph 69, an entity shall disclose whatever additional information is necessary to meet that objective.

14. A similar requirement is in paragraph 63 of IFRS 3 *Business Combinations*, which states:

> If the specific disclosures required by this and other IFRSs do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

15. Given that the disclosure objectives are clearly laid out, the staff thinks that this requirement would ensure that the entity does not leave out any relevant information that is readily available. Consequently, the staff recommends that a 'stand-back' requirement to disclose whatever additional information is necessary to meet objectives should be added.

Disaggregation of plan assets

16. Paragraph 125F of the ED proposed to require the entity to disclose how plan assets are allocated as follows:

> An entity shall disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets. At a minimum, an entity shall distinguish the following, subdividing each class of debt instruments and equity instruments into those that have a quoted market price in an active market and those that do not:

(a) property.

(b) government debt instruments.

(c) other debt instruments.

(d) the entity's own equity instruments.

(e) other equity instruments.

17. Paragraph 125F was adapted from paragraphs 120A(j) and (k) of current IAS 19, which require the entity to disclose:

> (j) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.
>
> (k) the amounts included in the fair value of plan assets for:
>
> (i) each category of the entity's own financial instruments; and
>
> (ii) any property occupied by, or other assets used by, the entity.

18. In effect, paragraph 125F of the ED added to the categories in paragraphs 120A(j) and (k) of IAS 19 the requirement that entities distinguish:

(a) between assets that have a quoted price and assets that do not; and

(b) between government debt instruments and other debt instruments

Staff approach

19. The staff agrees with respondents that the Standard should not mandate segregation of assets into specific classes of investments. The staff believes that entities should focus on the principle of this disclosure requirement, to disaggregate plan assets into classes that distinguish the risk and liquidity characteristics of those assets. Providing a list of example categories would:

(a) support the principle of the disclosure requirement and address concerns that the asset categories suggested in the ED do not always illustrate the principle (discussed in paragraph 23).

(b) allow entities to adapt their disclosures based on the nature and risks of the assets in their plans.

(c) add to convergence with US GAAP which also provides examples of asset categories rather than specifying a list of minimum asset categories.

20. Paragraph 20-50-1-d-5-ii of FASB ASC Topic 715 *Compensation—Retirement Benefits* requires that the entity shall disclose [emphasis added]:

> The fair value of each major category of plan assets as of each date for which a statement of financial position is presented. Asset categories shall be based on the nature and risks of assets in an employer's plan(s). **Examples of major categories include, but are not limited to**, the following: cash and cash equivalents; equity securities (segregated by industry type, company size, or investment objective); debt securities issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall objectives in paragraphs 715-20-50-1(d)(1) through 50-1(d)(5) in determining whether additional categories of plan assets or further disaggregation of major categories should be disclosed.

21. Apart from the staff approach, the Board may consider an alternative approach as discussed below. In the staff's opinion, the examples of asset categories to be provided in the staff approach may be parallel with the minimum asset categories to be required in the alternative approach.

Alternative approach

22. If the Board does not agree with the staff approach but confirms the proposal in the ED that a list of minimum asset categories should be required, the relevance of the following further disaggregation is called into question by respondents:

(a) assets that have a quoted price and assets that do not; and

(b) government debt instruments and other debt instruments

23. The staff agrees with respondents that requiring entities to distinguish government debt instruments and other debt instruments might not be relevant for users, particularly in unusual situations such as the recent global credit crunch. Also, the staff thinks that requiring entities to distinguish government debt instruments and other debt instruments may not meet the objective of the disclosure which is to segregate items based on different risk and liquidity.

24. Some suggest that credit ratings should be used as a criterion for disaggregating plan assets. The staff thinks that the additional costs the entity would incur to obtain the information about the credit rating of every single debt instrument would not outweigh the marginal benefit obtained from that information.

25. If the Board prefers the staff approach (providing a list of examples) the staff believes that a disaggregation based on high quality vs non-high quality will better illustrate the principle of the disclosure. However, as noted in the paragraph above this may be too costly for entities to prepare for the Board to require it as a minimum disaggregation in all circumstances.

26. The staff does not agree with the concern that the disaggregating debt and equity instruments into those that have a quoted market price and those that do not would result in extensive disclosures that is unlikely to add much to the understandability of the accounts, because similar types of disclosure are being required in:

    (a) IFRS 7, paragraph 27A of which states [emphasis added]:

    > To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:
    >
    > (a) **quoted prices** (unadjusted) in active markets for identical assets or liabilities (Level 1);
    >
    > (b) **inputs other than quoted prices** included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and

(c) **inputs for the asset or liability that are not based on observable market data** (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

(b) FASB ASC Topic 715 *Compensation—Retirement Benefits*, paragraph 20-50-1-d-5-iv of which requires that the entity shall disclose [emphasis added]:

Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant observable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information **for each major category of plan assets** disclosed pursuant to (ii) above for each annual period:

01. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, **segregating fair value measurements** using **quoted prices in active markets** for identical assets or liabilities **(Level 1)**, **significant other observable inputs (Level 2)**, and **significant unobservable inputs (Level 3)**. The guidance in paragraph 820-10-35-37 is applicable.

02. For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:

    A. Actual Return on Plan Assets (Component of Net Periodic Postretirement Benefit Cost) or Actual Return on Plan Assets (Component of Net Periodic Pension Cost), separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period

B. Purchases, sales, and settlements, net

C. Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)

03. Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.

27. To maintain consistency with disclosures about assets in IFRS 7 and in US GAAP, the staff thinks that the Board should confirm the proposed requirement that entities should distinguish debt and equity instruments that have a quoted market price and those that do not.

Staff recommendation

28. The staff recommends that the Board not make the proposed list of asset categories for plan assets a minimum requirement but an example supporting the principle of the disclosure, with the proposed disaggregation into government debt instruments and other debt instruments replaced with the example of disaggregation into high quality debt instruments and other debt instruments.

Question
Does the Board agree to: (a) additionally require (i) disclosure of the duration of the defined benefit obligation; and (ii) a 'stand-back' requirement to disclose whatever additional information is necessary to meet objectives; and (b) not make the proposed list of asset categories for plan assets a minimum requirement but an example supporting the principle of the disclosure, with the proposed disaggregation into government debt instruments and other debt instruments replaced with the example of disaggregation into high quality debt instruments and other debt instruments?