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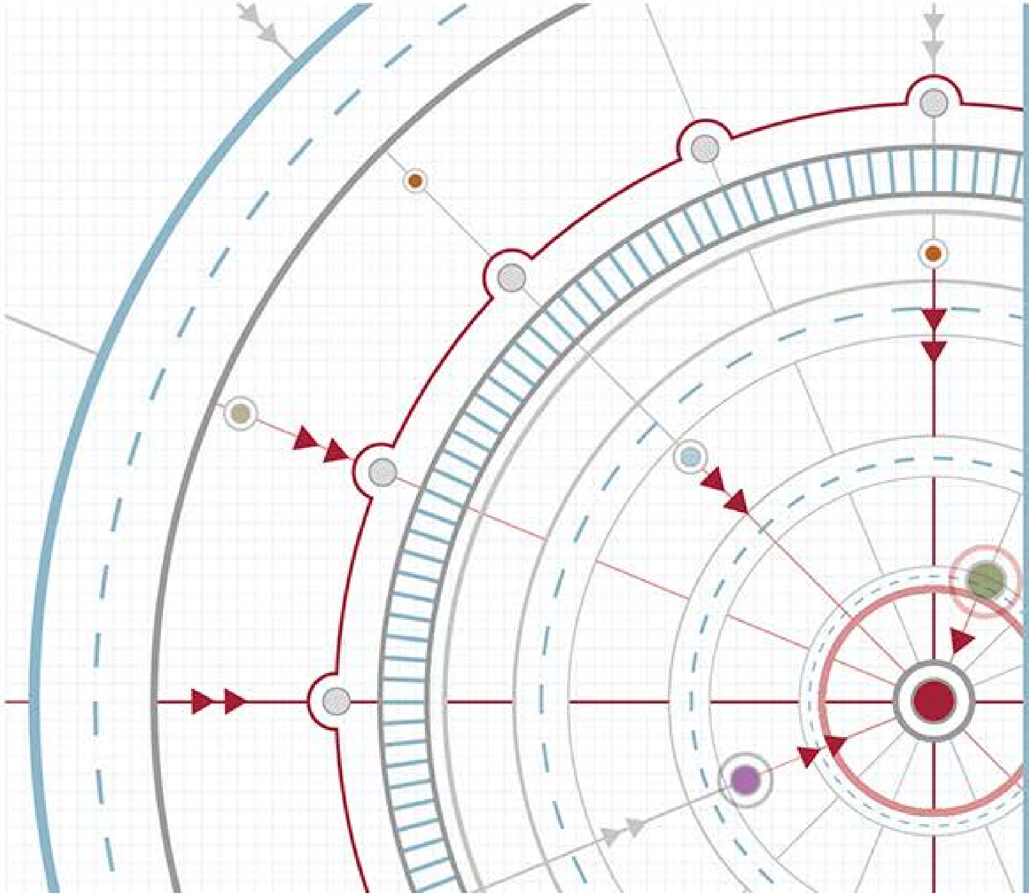

Interaction between electronic reporting and the Disclosure Initiative project

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Purpose of this session

- In this session, staff will:
  - provide an update on the Disclosure Initiative project; and
  - ask ITCG members to discuss example disclosures that might be used to satisfy user objectives relating to IAS 19 *Employee Benefits.* Specifically, we would like members' views on:

1. whether the example disclosure can be provided effectively in both electronic and paper-based reporting formats (technology neutral)? If not, what changes would you suggest?

2. whether the example disclosure would be difficult or complex to provide in an electronic reporting format? For example, would any element of the disclosure be difficult to tag in an effective/useful way?

3. whether the example disclosure interacts with any disclosures typically provided by entities today?

Background

Project background

The issue

There are three main concerns about disclosures in financial statements:

- not enough relevant information
- too much irrelevant information
- ineffective communication of the information provided

Project objective and focus

To help stakeholders improve the usefulness of disclosures for the primary users of financial statements by:

- developing guidance for the way the Board develops and drafts disclosure objectives and requirements in *future*
- using IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement* to test the draft Guidance

Project timeline

2018

March

Project added to agenda in response to Discussion Paper

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May – Sep

- Board developed draft guidance
- IAS 19 and IFRS 13 selected to test the draft Guidance

2019

Nov – March

Meetings with users to understand their objectives and ideal information set(s)

…

- Meetings with consultative groups and other stakeholders
- Board discussion on feedback

June

…

Board technical decisions

Dec

2020

Publish exposure draft

Past discussion with ITCG

- At the April 2018 ITCG meeting, we sought members' views on whether and how the effects of technology and digital reporting should be considered within the Board's Disclosure Initiative.
- ITCG feedback demonstrated:
  - that technology is providing new ways for companies to communicate with investors
  - that the need to access information contained in financial statements through traditional sources such as paper or PDF documents is likely to remain, at least in the medium term
  - the importance of ensuring disclosure requirements in IFRS Standards are 'technology neutral'—that is, they can be effectively applied in both paper-based and digital reporting environments

Draft guidance for the Board

- In May, June, and July 2018, the Board developed a draft framework to use when developing and drafting disclosure objectives and requirements in future.
- This framework is intended to:

1. help the Board develop more **specific and effective disclosure objectives** to explain *why* particular disclosure information is useful to a primary user of financial statements

2. improve the process the Board uses in **developing the content** of disclosure objectives and requirements, including by:
   - introducing consideration of disclosure proposals earlier in the standard-setting process
   - placing significant focus on the needs of users of financial statements and other stakeholders
   - effectively leveraging the knowledge and expertise of the IFRS Taxonomy team

3. encourage the Board to communicate more effectively by improving the process the Board uses when **drafting disclosure objectives and requirements**

Interaction with the IFRS Taxonomy

As part of its draft guidance, the Board tentatively decided that project teams should work with the IFRS Taxonomy team to fully understand:

- any common application challenges or inconsistencies with current disclosure objectives and requirements
- whether disclosure proposals can be incorporated effectively into the IFRS Taxonomy
- any duplication or contradiction between requirements in IFRS Standards
- the interaction between disclosure proposals and common reporting practice
- any potential issues with disclosure proposals
- whether disclosure proposals are ‘technology neutral’

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IAS 19 *Employee Benefits*

Feedback so far on employee benefits

- Almost all users say they focus primarily on disclosures relating to defined benefit plans.
- Most users say today's pension disclosures based on IAS 19 are often not effective in meeting their primary objectives.
- Information users would like to see includes:
  - information about the expected cash flow effects of the pension plan
  - better explanation and disaggregation of the amounts recognised in the primary financial statements
- Preparers say many of today's required disclosures are onerous to prepare; for example, sensitivity analysis of significant actuarial assumptions. Preparers understand the user need for improved information about cash and would support relevant disclosure.

Context for today’s discussion

- In future meetings, the Board will discuss potential amendments to the disclosure section of IAS 19.

- The staff will use feedback from today’s meeting to help develop recommendations and detailed analysis in preparation for those Board discussions[1].

- The staff is trying to identify key electronic reporting issues that the Board needs to consider. We are not asking you about the detailed modelling of these disclosures at this stage.

[1] The IFRS Taxonomy team has begun a full common practice review of IAS 19 similar to that already undertaken for IFRS 13. The project team will also consider the results of that review as they become available.

Today's discussion

- Staff have prepared examples of the following disclosures:

1	*Wider* sensitivity analysis of significant actuarial assumptions
2	Expected contributions to the plan

3	Expected future benefit payments from the plan
4	Information about differences between defined benefit plan valuations

- In light of the draft Guidance for the Board:

?
to ITCG members

1. Can the example disclosure be provided effectively in both electronic and paper-based reporting formats (technology neutral)? If not, what changes would you suggest?
2. Would the example disclosure be difficult or complex to provide in an electronic reporting format? For example, would any element of the disclosure be difficult to tag in an effective/useful way?
3. Does the example disclosure interact with any disclosures typically provided by entities today? If so, in what way?

1 Wider sensitivity analysis of significant actuarial assumptions

User objective	
	• Users want to understand the range of values within which the defined benefit obligation might fall, to determine appropriate adjustments for risk in their analysis. ✓ This is especially important for assumptions that do not move in a linear fashion[1].

Example disclosure

This sensitivity analysis is *wider* than todays' typical disclosure because it:

- ✓ covers *interrelationships* between the key assumptions; and
- ✓ displays *more than one deviation* from the base case assumptions.

The defined benefit obligation as of December 31, 2018 was £115,357 million. The significant assumptions used to measure the liabilities are shown below:

At 31 Dec	%
Discount rate	2.65
Rate of increase in pensions	2.50

The sensitivity of significant assumptions upon the defined benefit obligations are detailed below. Sensitivities are calculated by changing the two significant assumptions simultaneously:

		Rate of increase in pensions		
		-1%	**2.5%**	+1%
Discount Rate	-100 basis points	£74,123.57	£123,539.28	£172,954.99
	2.65%	£69,214.22	**£115,357.03**	£161,499.84
	+100 basis points	£64,672.98	£107,788.29	£150,903.61

[1] That is, when the change in those assumptions is not proportional to the resulting change in the defined benefit obligation.

2 Expected contributions to the plan

User objective	
	• Expected contributions (as agreed with trustees or internally budgeted by management) would allow users to better evaluate the impact of the obligation on cash flows. ✓ The information is considered more useful if it differentiates between 'ordinary' (payroll deductions) contributions and other contributions to reduce existing deficit.

Example disclosure

The Group has agreed a funding plan with the Plan Trustees that addresses the funding deficit over a maximum period of 15 years. The funding deficit as at 30 June 2017 was £8.6 billion demonstrating that the market value of the plan assets are not sufficient to meet the expected future benefit payments. The deficit will be met over a period of 10 years. The deficit contributions have three components:

- payments *by the Group* over 3 years to March 2020 totalling £2,100 million. £850 million of this was paid in March 2018 and the remaining £1,250 million is to be paid by March 2020.
- a further £2,000 million is due to be contributed by March 2019 from the *proceeds of the issuance of bonds* which will be held by the Group.
- for the 7 years from April 2021 to March 2027, the Group will make annual payments of around £900 million.

The Group is scheduled to make future deficit payments to the pension scheme in line with the table below:

Year to 31 March	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Deficit Contribution (£m)	850	2,000	1,250	900	900	907	907	907	907	907

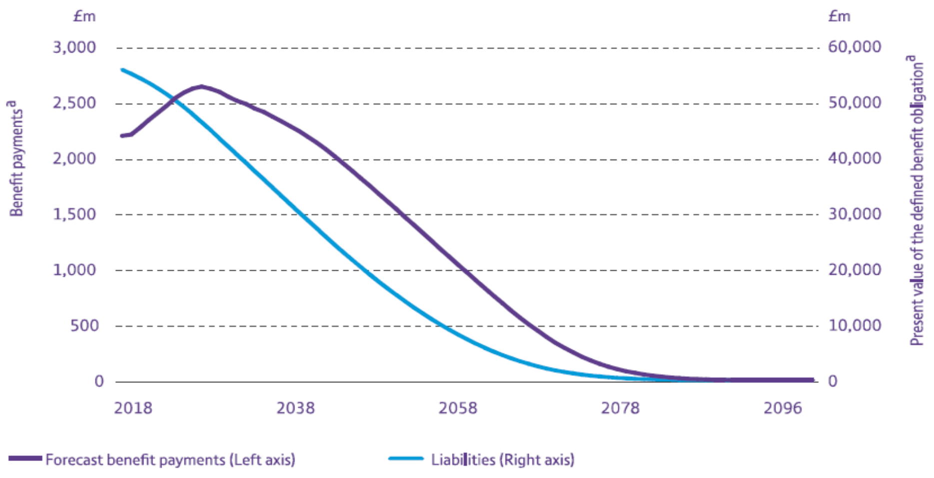
Ordinary cash contributions to the scheme of £264 million have been made in the current year, £303 million will be made in 2019 and then rising by 3% per annum to 2027.

Expected future benefit payments from the plan

User objective	• Users want to understand the time period over which the remaining obligations are expected to wind down and the associated expected payments.

Example disclosure

The Group's defined benefit plans are closed to new members. The estimated duration of the pension scheme liabilities, which is an indicator of the weighted average term of the liabilities, is around 16 years although the benefits payable by the scheme are expected to be paid over more than 70 years. The chart below illustrates the estimated benefits payable from the pension scheme using the IAS 19 assumptions:



£m	Total
Number of plan participants	293,000
Actual benefit payments 2018	£ 2,315
Benefits expected to be paid 2019	2,320
Benefits expected to be paid 2020	2,355
Benefits expected to be paid 2021	2,378
Benefits expected to be paid 2022	2,410
Benefits expected to be paid 2023	2,437

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4 Information about differences between defined benefit plan valuations

User objective	
	• If plan valuations other than the IAS 19 valuation are described in the financial statements, users find it difficult to understand how and why they differ from the IAS 19 valuation. • An explanation of the difference between the IAS 19 valuation and other valuations will help users to determine, and forecast, the obligation they incorporate in their analysis.

Example disclosure

Buyout valuation (emphasis added on the suggested additional explanation to provide)

The most recent full actuarial valuation of the Plan's liabilities, obtained by the Trustee, was carried out at 31 March 2016 by the Plan's independent actuary. The result of this valuation is shown below:

£million	March 2016
Value of buyout liabilities	(214)
Value of buyout assets	95.6
Deficit	(118.4)

The buyout valuation uses the fair value of the defined benefit plan assets (adjusted for theoretical wind-up expenses) to measure the buyout assets. Although the defined benefit obligation recognised in the financial statements (the accounting valuation) and the buyout liabilities are calculated similarly, the assumptions used for each differ, primarily in respect of retirement ages and discount rate. The buyout liabilities, due to the assumption that each plan is terminated on the valuation date, do not reflect assumptions about future compensation levels whereas the obligation on the basis of the accounting valuation does. The buyout basis reflect composite weighted average discount rates of 3.00% while the discount rate used for the accounting valuation is based on high quality (AA) corporate bond yields of an appropriate return.

4 Information about differences between defined benefit plan valuations (continued)

Example disclosure

Funding valuation (emphasis added on the suggested additional explanation to provide)

The pension scheme is subject to a full actuarial valuation every three years using assumptions agreed between the Trustee and the Group. The purpose of this valuation is to design a funding plan to ensure that the pension scheme has sufficient funds available to meet future benefit payments. The results of the two most recent triennial valuations are shown below:

£m	March 2016	March 2013
Scheme liabilities	(4,856)	(4,009)
Market value of scheme assets	4,377	3,169
Funding deficit	(479)	(840)
Percentage of accrued benefits covered by scheme assets	90%	79%

The valuation calculated under the funding valuation basis of £479.0m is different from the accounting valuation which is presented on the Balance Sheet of £468.1m (at 26 January 2019). <u>Differences arise between the funding valuation and accounting valuation, mainly due to the use of different assumptions to value the liabilities and changes in market conditions between the two valuation dates, of 31 March 2016 and 26 January 2019. For funding valuation purposes, the liabilities are determined based on assumptions set by the Trustee following consultation with the Group and scheme actuaries. The discount rate used for the most recent funding valuation is based on index linked gilt yields plus 1.6%. The discount rate used for the accounting valuation is based on high quality (AA) corporate bond yields of an appropriate return.</u>

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