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Disclosure Initiative- Targeted Standards-level Review

Application of the draft Guidance to IAS 19

Objective

- 1 The objective of the paper is to provide an overview of the tentative decisions made by the IASB in applying its new draft Guidance to the disclosures' requirements in IAS 19 *Employee Benefits*.
- 2 The paper presents the main decisions made by the IASB together with a comparison with current requirements.

Background

- 3 At its July 2018 meeting, the IASB selected IAS 19 Employee Benefits and IFRS 13 Fair Value Measurement as the two IFRS Standards on which to test the new draft Guidance to use when developing and drafting disclosure requirements with a twofold objective:
 - (a) Test and improve the draft Guidance.
 - (b) Improve the disclosure requirements of selected Standards in order to provide more useful information to primary users of financial statements.
- 4 The IASB made from November 2019 through March 2020 tentative decisions about disclosures in those Standards. This agenda paper provides an overview of the IASB's tentative decisions and a comparison between the IASB's tentative decisions and the disclosure requirements on IAS 19.
- 5 This agenda paper presents the proposed changes to IAS 19 and provides a comparison with existing disclosure requirements
- 6 Agenda paper 05-04 similarly illustrates the proposed changes to IFRS 13.

Defined benefit plan

High-level, catch all disclosure objectives

Summary of tentative decisions

- 7 The IASB tentatively decided that an entity shall:
 - (a) Disclose information that enables users of financial statements to evaluate the uncertainties associated with the entity's involvement in the defined benefit plans; and to assess the effect that those plans have on the financial performance, financial position and cash flows of the entity.
 - (b) Aggregate or disaggregate information provided to meet the specific disclosure objectives 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 substantially different features or characteristics.

Comparison with current IAS 19

- 8 The IASB tentatively proposes to overall retain the disclosure objective for defined plans in paragraphs 135 and 136 of IAS 19 (those paragraphs describe the item to meet the objective of explaining the characteristics, amounts, timing, uncertainty and risk of the plans), and agreed to generally retain the examples of features that an entity may use as a basis for disaggregating disclosures about defined benefit plans currently included in paragraphs 137 and 138 of IAS 19.

Specific disclosure objectives for defined benefit plans

- 9 The IASB tentatively decided to include specific disclosure objectives about:
- (a) Amounts in the primary financial statements.
 - (b) Nature and risks of the plans.
 - (c) Expected future cash flows resulting from the defined benefit obligation.
 - (d) Time period over which payments to closed plans will continue to be made,
 - (e) Significant actuarial assumptions.
 - (f) Drivers of change in the net defined benefit liability or assets.

Amounts in the primary financial statements

Summary of tentative decisions

- 10 The IASB tentatively decided, on specific disclosure objective, that an entity shall disclose information that enables users of financial statements to understand the amounts and components of those amounts, in the statements of financial performance, financial position and cash flows arising from its defined benefit plans during the reporting period.
- 11 Regarding the items of information to meet the objective, an entity shall disclose:
- (a) A breakdown of the total income or expense included in profit or loss, identifying its components, including current service cost, gain or loss on settlement and net interest on the net defined benefit liability.
 - (b) A breakdown of the total income or expense in other comprehensive income, identifying its components, including actuarial gains and losses and return on plan assets.
 - (c) A breakdown of the asset or liability in the statement of financial position, identifying its components including fair value of plan assets, present value of the defined benefit obligation and the effect of the asset ceiling.
 - (d) The deferred tax asset or liability arising from the plan (i.e. a breakdown of the amounts in the statement of cash flows, identifying its components, including contributions by the employer into the plan during the period).

Comparison with current IAS 19

- 12 Currently, paragraph 135(b) of IAS 19 requires an entity to identify and explain the amounts in the financial statements arising from its defined benefit plans.
- 13 The IASB received the feedback from users on the need to have a quantitative 'executive summary' of an entity's pension arrangement at the beginning of a pension note. Therefore, the IASB's proposes to require entities to clearly communicate the effect of its plans on each primary financial statement separately from disclosures an entity may provide in the form of a reconciliation.

Nature and risks of the plans

Summary of tentative decisions

- 14 The IASB tentatively decided, on specific disclosure objective, that an entity shall disclose information that enables users of financial statements to understand the:
- (a) Nature of the benefits provided by its defined benefit plans.
 - (b) Nature and extent of risks, in particular the investment risks to which the plans expose the entity.
 - (c) Strategies that the entity has in place to manage the plans and the associated risks.
- 15 While not mandatory, the following items of information may enable an entity to meet this objective:
- (a) A description of the nature of the benefits provided by the plans.
 - (b) The status of the plans, such as whether the plans are open or closed to new members and whether the plans are unfunded, partly funded or funded.
 - (c) A description of how the plans are governed and managed, including any regulatory framework that affects how the plan operates.
 - (d) A description of plan-specific investment risks, including any significant concentrations of risks. For example, if plan assets are primarily invested in one class of investments, an explanation of the risks to which such concentration exposes the entity.
 - (e) A description of the policies and processes employed by the entity or plan trustees or managers to manage the risks in item d.
 - (f) A description of the investment strategies for the plans.
 - (g) A description of the fair value of plan assets by classes of assets that distinguish the risks and characteristics of those assets.
 - (h) The expected returns on the plan assets.
 - (i) A description of assets or liabilities matching investment strategies.
 - (j) A description of plan amendments, curtailments and settlements.
 - (k) The fair value of the entity's own transferable financial instruments held as plan assets and the fair value of plan assets that are property occupied or other assets used by the entity.

Comparison with current IAS 19

- 16 Currently, paragraphs 139, 142, 143 and 146 of IAS 19 require entities to disclose information about the characteristics and risks of defined benefit plans.
- 17 However, the main differences between the current requirements in paragraphs 139, 142, 143 and 146 of IAS 19 and the IASB tentative decisions are described in the following paragraphs.
- 18 The IASB's tentative decisions about the specific disclosure objective cover any risks the plan exposes the entity to, including for example, interest rate risks or market risks. However, the objective and items of information place specific emphasis on investment risks from the plan assets. The IASB made this decision considering:
- (a) Feedback from users highlighting the importance of information about investment risks.

- (b) That other specific disclosure objectives capture risks solely associated with the defined benefit obligation.
- 19 The information captured by paragraph 142 of IAS 19 disclosure requirement differs to the IASB's tentative decisions in two primary ways:
- (a) Firstly, the IASB's tentative decisions do not specify that distinguishing between assets that have a quoted market price in an active market and those that do not may enable an entity to meet the objective. This is because the IASB received the feedback from users that such detailed information would not add much value in this area.
 - (b) Secondly, the IASB's tentative decisions do not provide examples of classes of assets that an entity could distinguish between to meet the objective. This is because IASB's tentative decisions about the item of information would already encourage an entity to make appropriate judgements about how it should distinguish its plan assets.

Expected future cash flows resulting from the defined benefit obligation

Summary of tentative decisions

- 20 The IASB has tentatively decided, on specific disclosure objective, that an entity shall disclose information that enables users of financial statements to understand the expected effect of a defined benefit obligation on an entity's future cash flows, and the nature of those cash flows. Entities should disclose to explain the methods used to meet the specific disclosure objective.
- 21 While not mandatory, the following items of information may enable an entity to meet this objective:
- (a) Descriptions of funding agreements or policies that affect any expected future contributions that meet the defined benefit obligation at the end of the reporting period. Such agreements could include those reached with plan trustees or managers.
 - (b) Quantitative information about any expected future contributions that meet the defined benefit obligation at the end of the reporting period.
 - (c) Descriptions of regulatory or other agreements that affect any expected future contributions, including any known minimum funding requirements.
 - (d) Information about the expected pattern or rate of future contributions.

Comparison with current IAS 19

- 22 Paragraph 147(a)-(b) of IAS 19 already require entities to disclose information about the amount and uncertainty of future cash flows relating to defined benefit plans.
- 23 The main difference between the current requirements in paragraph 147(a)-(b) of IAS 19 and the IASB tentative decisions is that paragraph 147 (b) specify the time period over which preparers should provide the information and the IASB tentative decision not. This is because, the IASB received the feedback from users that this is their most critical information need, and from preparers that the information would not be too costly to provide. Therefore, the IASB tentatively decided to give entities the flexibility to disclose information that is realistic to prepare and provides useful information to users.

Time period over which payments to closed plans will continue to be made

Summary of tentative decisions

- 24 The IASB has tentatively decided, on specific disclosure objective, that an entity shall disclose information that enables users of financial statements to understand

the significant actuarial assumptions used in determining the defined benefit obligation.

- 25 While not mandatory, the following items of information may enable an entity to meet this objective:
- (a) The demographic and financial actuarial assumptions used.
 - (b) The approach adopted in determining the actuarial assumptions used, such as how the Consumer Price Index was assessed or the model to determine longevity assumptions.
 - (c) The reasons why any actuarial assumptions significantly changed during the period.
 - (d) Any alternative actuarial assumptions reasonably possible at the reporting date that could have significantly changed the defined benefit obligation.
 - (e) A description of the level of measurement uncertainty involved in measuring the defined benefit obligation.

Comparison with current IAS 19

- 26 Paragraphs 144 and 145 of IAS 19 already requires entities to disclose information relating to assumptions used in determining the defined benefit obligation.
- 27 The main differences between the current requirements in paragraphs 144 and 145 of IAS 19 and the IASB tentative decisions are as follow:
- (a) Comparing paragraph 144 of IAS 19, the IASB's tentative decisions do not specify the format in which the information should be disclosed. This is because according with the feedback received by the IASB users did not identify any particular format they prefer.
 - (b) The information captured by paragraph 145 of IAS 19 differs to the tentative decisions made by the IASB.

Drivers of change in the net defined benefit liability or asset

Summary of tentative decisions

- 28 The IASB has tentatively decided, on specific disclosure objective, that an entity shall disclose information that enables users of financial statements to understand the drivers of change in the net defined benefit liability or asset from the beginning of a reporting period to the end of that period.
- 29 While not mandatory, the following items of information may enable an entity to meet this objective:
- (a) A tabular reconciliation of the main drivers of change in the net defined benefit liability or asset.
 - (b) To include drivers of change relating to any reimbursement rights.
- 30 Examples of drivers of change include but are not limited to:
- (a) Current and past service costs, contributions by the employer.
 - (b) Contributions by employees.
 - (c) Benefits paid out to plan participants.
 - (d) Effect of foreign exchange rate differences, return on plan assets.
 - (e) Actuarial gains or losses from changes in assumptions, actuarial gains or losses from experience adjustments.
 - (f) Effect of business acquisitions, interest income or expense.

- (g) Changes in the effect of limiting a net defined benefit asset to the asset ceiling.
- (h) Gains and losses from settlement. and/or combinations and disposals.

Comparison with current IAS 19

- 31 Paragraphs 140 and 141 of IAS 19 already require entities to disclose information that reconciles the opening balance to the closing balance of amounts relating to defined benefit plans in the financial statements.
- 32 The main difference between the current requirements in paragraphs 140 and 141 of IAS 19 and the IASB tentative decisions is that the information captured by paragraph 140 of IAS 19 differs to the tentative decisions made by the IASB. The IASB's tentative decisions treat a reconciliation as one way to meet the objective but not the only way. This is because, the IASB applied this approach in response to feedback from users that they often focus on particular line items from the reconciliation instead of the reconciliation as a whole.

Defined contribution plan

Summary of tentative decisions

- 33 The IASB's tentative decisions are similar to the information captured by this existing requirement. This is because the IASB has received the feedback that while some users find information about these plans useful, other users consider that detailed information would not be necessary

Comparison with current IAS 19

- 34 Paragraph 53 of IAS 19 requires an entity to disclose the amount recognised as an expense for defined contribution plans.

Multi-employer plans

Summary of tentative decisions

- 35 The IASB's tentative decisions for multi-employer plans differed depending on how these plans are accounted for:
- 36 If an entity accounts for its multi-employer defined benefit plan as a defined benefit plan.
 - (a) The IASB has tentatively decided that an entity should comply with all the objectives and items of information the IASB tentatively decided on for defined benefit plans (see paragraphs 7-32).
 - (b) Furthermore, the IASB decided to include additional items of information under the specific disclosure objective about nature and risks of the plans to capture particular risks and characteristics that are unique to multi-employer plans.
 - (c) While not mandatory, information regarding the description of the agreed allocation of a deficit or surplus on the wind-up of the plan or on the entity's withdrawal from the plan may enable an entity to meet this objective.
- 37 If an entity accounts for its multi-employer defined benefit plan as a defined contribution plan.
 - (a) The IASB has tentatively decided that an entity should comply with the high-level, catch all disclosure objective for defined contribution plans (see paragraph 7).

- (b) Furthermore, the IASB decided that the entity should comply with a specific disclosure objective, and items of information, about the nature and risks of the multi-employer plans.
 - (c) While not mandatory, information regarding the fact that the plan is a defined benefit plan and information about any deficit or surplus in the plan that may affect the amount of future contributions to be paid by the entity may enable an entity to meet this objective.
- 38 The IASB's tentative decisions about items of information to capture risks and characteristics that are unique to multi-employer plans are the same irrespective of the accounting for the plan. The items include:
- (a) The level of participation of the entity in the plans compared to other participating entities.
 - (b) A description of the stated policy to determine the contribution to be paid by the entity into the plans.
 - (c) A description of the extent to which the entity can be liable to the plans for other entities' obligations under the terms and conditions of the plans.

Comparison with current IAS 19

- 39 Paragraph 148 of IAS 19 captures the disclosure requirements for multi-employer plans.
- (a) **For multi-employer plans accounted for as defined benefit plans**, there is no significant difference between the current IFRS requirement and the IASB tentative decision.
 - (b) **For multi-employer plans accounted for as defined contribution plans**, the main difference between the current requirements in paragraph 148 of IAS 19 and the IASB tentative decisions is that latter does not require the information captured by paragraph 148 d-ii) (the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan). This is because, the IASB received the feedback that this information could potentially be boilerplate.

Group Plans

Summary of tentative decisions

- 40 According with paragraph 40 of IAS 19, group plans are defined benefit plans that share risks between entities under common control. The IASB's tentative decisions for group plans depend on how these plans are accounted for.
- 41 If an entity accounts for its group plan **as a defined benefit plan**.
- (a) The IASB has tentatively decided that an entity should comply with the objectives and items of information the IASB tentatively decided on for defined benefit plans (see paragraphs 7-32).
 - (b) Furthermore, the IASB decided to include additional items of information under the specific disclosure objective about nature and risks of the plans to capture particular risks and characteristics that are unique to group plans.
 - (c) While not mandatory, information regarding the contractual agreement or stated policy for charging the net defined benefit cost to individual group entities to meet the specific disclosure objective on amounts in the primary financial statements arising from defined benefit plans during the period may enable an entity to meet this objective.
- 42 If an entity accounts for its group plan as a defined contribution plan.

- (a) The IASB has tentatively decided that should comply with the high-level, catch all disclosure objective for defined contribution plans (see paragraph 7).
 - (b) Furthermore, the IASB decided that the entity should comply with a specific disclosure objective, and items of information, about the nature and risks of the group plan.
 - (c) While not mandatory, information regarding any deficit or surplus in the plan that could affect the amount of future contributions to be paid by the entity to meet the specific disclosure objective on the nature and risks of defined benefit plans may enable an entity to meet this objective.
- 43 The IASB's tentative decisions about items of information to capture risks and characteristics that are unique to group plans were the same irrespective of the accounting for the plan. The items of information tentatively decided upon by the IASB were:
- (a) The level of participation of the entity in the plans compared to other participating entities.
 - (b) A description of the stated policy to determine the contribution to be paid by the entity into the plans.
 - (c) A description of the extent to which the entity can be liable to the plans for other entities' obligations under the terms and conditions of the plans.
 - (d) Cross-referring to the disclosures in another group entity's financial statements if the other entity's financial statements are available to users on the same terms and at the same time as the entity's financial statements.

Comparison with current IAS 19

- 44 Paragraph 149 of current IAS 19 captures the disclosure requirements for group plans. The main differences between the current requirements in paragraph 149 of IAS 19 and the IASB tentative decisions are as follow:
- 45 For group plans accounted for as defined benefit plans, the main difference between the current requirements in paragraph 149 of IAS 19 and the IASB tentative decisions is the disclosure about the contractual agreement or stated policy is not mandatory.
- (a) Paragraph 149 a) of IAS 19 requires entities to disclose the fact that there is no stated policy for charging the net defined benefit cost. The IASB considered this information boilerplate.
- 46 Finally, the IASB tentative decision comparing to paragraph 149 d) of IAS 19 does not require to disclose characteristics and risks, fair value, significant actuarial assumptions and expected future contributions for group plans accounted for as a defined contribution plan.

Other employee benefit plans

- 47 This category includes short-term employee benefits, other long-term employee benefits and termination benefits.

Summary of tentative decisions

- 48 The IASB's has tentatively decided that an entity shall disclose:
- (a) information that enables users of financial statements to understand how **short-term employee benefits** affect the entity's statements of financial performance and cash flows.
 - (b) information that enables users of financial statements to understand how the nature of **other long-term employee benefits** and how those benefits affect

the entity's statements of financial performance, financial position and cash flows.

- (c) information that enables users of financial statements to understand how the nature of **termination benefits** and how those benefits affect the entity's statements of financial performance, financial position and cash flows.

Comparison with current IAS 19

- 49 IAS 19 does not require specific disclosures about short-term employee benefits, other long-term employee benefits, and termination benefits. Instead, IAS 19 refers an entity participating in these plans to other IFRS Standards that may require disclosures, for example IAS 1 *Presentation of Financial Statements* that requires disclosure of employee benefits expense.
- 50 The IASB's tentative decisions for these employee benefit plans would prompt preparers to disclose any material about these plans to meet user information needs.

Questions for EFRAG TEG

- 51 Does EFRAG TEG have comments or preliminary views on the update provided about the IASB's tentative decisions on IAS 19?