

## **Analysis of Submissions on ED 195R Tier 2 Supplement to ED 195 Defined Benefit Plans (proposed amendments to AASB 119)**

### **1. List of Submissions**

<b>ID</b>	<b>Respondent</b>
1 – PwC	PwC Australia
2 – KPMG	KPMG Australia
3 – GT	Grant Thornton

### **2. Approach to analysis of submissions**

Any collation of comments on Exposure Drafts is, by its nature, subjective. Accordingly, this collation is not a substitute for reading the original submissions in their entirety, provided in Agenda Paper 6.5.

### **3. General comments on the proposals**

While one respondent does not agree with the disclosure requirements in ED 195R, two respondents, subject to their specific comments provided below, express support for the disclosure requirements in ED 195R.

### **4. Responses to the Specific Matters for Comment**

#### **(a) whether you agree with the AASB disclosure proposals in paragraphs 33A and 125A-125K of ED 195 in relation to Tier 2 entities as set out in the Analysis of Proposed Disclosures.**

All three respondents commented on this question. One respondent (GT) generally disagrees with the disclosure proposals in ED 195R, arguing that the increased disclosure requirements beyond that required by *IFRS for SMEs* do add significant complexity and costs for Tier 2 entities and that the Board should not consider any decisions on RDR disclosures until the IASB has considered it further. In contrast, subject to comments discussed in detail below, two other respondents (PwC and KPMG) agree with the proposed disclosure requirements in ED 195R. Staff's views on each of their comments are also provided in the table below.

**Comments on specific paragraphs of ED 195R provided by PwC and KPMG.**

Extracted Disclosure Requirements in ED 195R	Respondent	Respondent's Comments	Staff Views
<p><b>Disclosure</b></p> <p>33A If an entity participates in a defined benefit multi-employer plan, it shall disclose:</p> <p>...</p> <p>(f) if the entity accounts for the plan as if it were a defined contribution plan in accordance with paragraph 30:</p> <p>...</p> <p>(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.</p>	<p>PwC</p>	<p>The respondent believes that, since an exemption has been provided to Tier 2 entities from disclosing the basis used to determine the surplus or deficit under paragraph 30(c)(ii) in Compiled AASB 119 – RDR Early Application Only, on the basis that there is no equivalent requirement of <i>IFRS for SMEs</i>, the same exemption should also be applied under paragraph 33A(f)(iv). Therefore, the respondent suggests that paragraph 33A(f)(iv) should be excluded/shaded for Tier 2 entities.</p>	<p><i>The requirements of paragraph 33A(f)(iv) are included in paragraph 125N(d)(iv) of revised IAS 19.</i></p> <p>Staff agree with the respondent's comment that since an exemption has been provided to Tier 2 entities from disclosing the basis used to determine the surplus or deficit under paragraph 30(c)(ii) in the current version of AASB 119, the exemption should also be provided in revised IAS 19.</p> <p>Staff do not consider that the exemption in 30(c)(ii) relates to all of the disclosure requirements of paragraph 33A(f)(iv) (paragraph 125N(d)(iv) of revised IAS 19). Rather, staff are of the view that the exemption relates only to the basis used to determine the deficit or surplus.</p> <p>Accordingly, staff suggest excluding "...including the basis used to determine that deficit or surplus ..." in paragraph 125N(d)(iv) to make the requirements consistent with the exemption provided in respect of the same disclosure in the existing Tier 2 disclosure requirements.</p>

Extracted Disclosure Requirements in ED 195R	Respondent	Respondent's Comments	Staff Views
<p><b>Disclosure</b></p> <p><b>125A An entity shall disclose information that:</b></p> <p>...</p> <p><b>(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 125D-125H); and</b></p> <p>...</p>	<p>KPMG</p>	<p>The respondent notes that if paragraph 125H is exempted for Tier 2 entities under ED 195R, then paragraph 125A(b) should be edited by removing the reference to paragraph 125H.</p>	<p>The requirements of paragraph 125H referred to have been removed from the revised IAS 19.</p>
<p><b>Characteristics of defined benefit plans</b></p> <p><b>125C An entity shall disclose:</b></p> <p>...</p> <p><b>(c) a narrative description of any plan amendments, curtailments and non-routine settlements.</b></p>	<p>KPMG</p>	<p>The respondent does not support the exemption of disclosure requirement under paragraph 125C(c). The respondent argues that the principle 6(f) in the 'Tier 2 Disclosure Principles' would support this disclosure requirement for Tier 2 entities, as any plan amendments, curtailments and non-routine settlements would be examples of <i>'transactions and other events and conditions encountered by such entities'</i>. In addition, the respondent believes that the disclosure required by 125C(c) would provide information required by principles 6(a) and 6(b) in the Tier 2 Disclosure Principles.</p> <p>Moreover, the respondent does not believe the disclosure requirement under paragraph 125C(c) would be particularly onerous or the costs of doing so would outweigh the benefits. It also questions the validity of the basis for an exemption and suggests it should be Tier 2 entities' decision of non-disclosure on the basis of materiality rather than exempt</p>	<p><i>The requirements of paragraph 125C are included in paragraph 125E of revised IAS 19.</i></p> <p>Staff acknowledge that the respondent's argument is consistent with the 'user need' principle in paragraph 6 of 'Tier 2 Disclosure Principles'. Specifically, staff agree that the information disclosed on entities' curtailments and non-routine settlements could meet users' information needs in terms of the entity's:</p> <ul style="list-style-type: none"> <li>• short-term cash flow status (principle 6(a) of 'Tier 2 Disclosure Principles'); and</li> <li>• liquidity and solvency (principle 6(b) of 'Tier 2 Disclosure Principles').</li> </ul> <p>In addition, staff agree that curtailments and non-routine settlements could be part of entities' transactions that users are likely to be interested in receiving information about (principle 6(f) of 'Tier 2 Disclosure Principles').</p>

Extracted Disclosure Requirements in ED 195R	Respondent	Respondent's Comments	Staff Views
		<p>all Tier 2 entities on the assumption that such transactions occur relatively infrequently or the impacts would not be significant.</p>	<p>However, staff are of the view that the cost of disclosure required by paragraph 125C(c) (paragraph 125E(c) of revised IAS 19) surpasses the benefits.</p> <p>Staff do not agree with the respondent's suggestion that disclosing a narrative description under paragraph 125C(c) (paragraph 125E(c) of revised IAS 19) would not be particularly onerous or costly in comparison with the benefits received by users as discussed above.</p> <p>Accordingly, consistent with the proposal in ED 195R, staff recommend excluding paragraph 125C(c) (paragraph 125E(c) of revised IAS 19) from Tier 2 disclosure requirements based on the cost/benefit principle under paragraph 5 of 'Tier 2 Disclosure Principles'.</p>
<p>125E Each reconciliation listed in paragraph 125D shall show each of the following, if applicable:</p> <p>...</p> <p>(f) contributions to the plan, showing separately those by the employer and by plan participants;</p> <p>(g) payments from the plan, showing separately the effect of any non-routine settlements; and</p> <p>...</p> <p><b>RDR120A.1 — An entity applying Australian Accounting Standards —</b></p>	<p>PwC</p>	<p>The respondent suggests that, as drafted by paragraph 125E in ED 195R, the reconciliations from opening to closing balances will only show contributions to the plan and payments from the plan, but not all other changes.</p> <p>The respondent suggests inserting an RDR paragraph similar to RDR120A.1 to show 'all other changes' from opening to closing balances in defined benefit obligations and plan assets.</p>	<p><i>The requirements of paragraph 125D are included in paragraph 125F of revised IAS 19. The requirements of paragraph 125E are included in paragraph 125G of revised IAS 19.</i></p> <p>Staff do not agree with the respondent's comment. Staff are of the view that the requirement in paragraph 125D (paragraph 125F of revised IAS 19) to disclose a reconciliation 'from the opening balance to the closing balance...' would include 'all other changes' from opening to closing balances in defined benefit obligations and plan assets.</p>

Extracted Disclosure Requirements in ED 195R	Respondent	Respondent's Comments	Staff Views
<p><del>Reduced Disclosure Requirements shall disclose a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes. These disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful.</del></p>			<p>Accordingly, staff recommend not including RDR 120A.1 for Tier 2 entities, consistent with the proposal in ED 195R.</p>
<p>125H An entity shall disclose the present value of the defined benefit obligation, adjusted to exclude the effect of projected growth in salaries.</p>	<p>PwC</p>	<p>The respondent notes that, corresponding to the tentative decisions in relation to ED Defined Benefit Plans from IASB's February meeting, paragraph 125H of ED 195 may be replaced by an example of additional disclosures that may meet the disclosure objective. Therefore, whether to provide an exemption for Tier 2 entities from applying the example would depend on the type of example including in the ED 195 and whether it implicitly increases the disclosure obligations of Tier 2 entities beyond comparable obligations of SMEs.</p>	<p>The requirements of paragraph 125H referred to have been removed from the revised IAS 19.</p>
<p>125C An entity shall disclose: ... (b) a narrative description of the extent of the risks to which the plan exposes the entity and of any concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g. property, the</p>		<p>The respondent suggests that, while Tier 2 entities are exempted under paragraph 125J from disclosing any asset-liability matching strategies used to mitigate longevity risk, Tier 2 entities are still required to disclose under paragraph 125C(b) a narrative description of the extent of the risks that are exposed to the Tier 2 entities. The respondent is concerned that this approach,</p>	<p><i>The requirements of paragraph 125C are included in paragraph 125E of revised IAS 19.</i></p> <p><i>The requirements of paragraph 125J are included in paragraph 125L of revised IAS 19.</i></p> <p>In accordance with 'Tier 2 Disclosure Principles', when there is no equivalent disclosure requirement under <i>IFRS for SMEs</i>,</p>

Extracted Disclosure Requirements in ED 195R	Respondent	Respondent's Comments	Staff Views
<p>plan may expose the entity to a concentration of property market risk; and</p> <p>...</p> <p>125J An entity shall disclose details of any asset-liability matching strategies used by the plan, including the use of annuities and other techniques, such as longevity swaps, to manage longevity risk.</p>	<p>KPMG</p>	<p>which essentially requires disclosure of the existence/extent of risks but not the strategies applied to mitigate the risks facing by Tier 2 entities, would leave 'unanswered questions' for users. Therefore, it recommends that it is necessary to assess whether an 'all or nothing' disclosure with regard to risk would be preferable.</p> <p>The respondent confirms its recommendation by listing examples in AASB 7 <i>Financial Instruments</i> RDR, whereby Tier 2 disclosures are required for either 'all' disclosures relating to a type of risk, or 'none' of the disclosures relating to a type of risk. For example:</p> <ul style="list-style-type: none"> <li>disclosure of the extent of risks as well as the mitigation of such risks have been excluded for Tier 2 entities (e.g. credit risk) (i.e. 'none' of the disclosures are required).</li> <li>disclosure of the nature of the risks being hedged as well as a description of each type of hedge is required for Tier 2 entities (i.e. all disclosures are required).</li> </ul> <p>The respondent agrees with retaining paragraph 125C(b), on the basis that it is an extension of the disclosure principle in paragraph 125A(a) and corresponds with paragraph 6(a) of the 'Tier 2 Disclosure Principle'. The respondent further suggests an 'all' approach to disclosure should be taken, therefore not to exempt Tier 2 entities</p>	<p>the disclosures requirements under 'Tier 2 Disclosure Principles' are determined by drawing on the 'user need' and 'cost-benefit' principles.</p> <p>Staff note that the respondent's argument is consistent with the 'user need' principle in paragraph 6 of 'Tier 2 Disclosure Principles'. Specifically, staff agree that the information disclosed in relation to asset-liability matching strategies meet users' information needs in terms of the entities' liquidity and solvency (principle 6(b) of 'Tier 2 Disclosure Principles').</p> <p>However, staff are of the view that the cost of disclosure required by paragraph 125C(c) (paragraph 125E(c) of revised IAS 19) surpasses the benefits. Based on the reasoning in paragraph 5, in relation to cost benefits, of the 'Tier 2 Disclosure Principles', and consistent with the proposal in ED 195R, paragraph 125J (paragraph 125L of revised IAS 19) should be excluded from the Tier 2 disclosure principles.</p> <p>Further, staff do not believe that an 'all or nothing' disclosure with regard to risk is preferable for Tier 2 entities in relation to the revised IAS 19 as the cost of some disclosures may be higher than the benefit to users. Staff are of the view that the inclusion of disclosures relating to risk where the cost does not outweigh the benefits does not imply that <i>all</i></p>

Extracted Disclosure Requirements in ED 195R	Respondent	Respondent's Comments	Staff Views
		from paragraph 125J.	disclosures relating to risk should be included in Tier 2 disclosure requirements, regardless of the cost of preparing such disclosures for entities. That is, staff are of the view that an 'all or nothing' approach to disclosure is not appropriate in all circumstances.
<p>125K An entity shall provide a narrative discussion of factors that could cause contributions over the next five years to differ significantly from current service cost over that period. For example, an entity shall disclose how it expects any surplus or deficit to affect the level and timing of its contributions over the next five years, and the period over which it expects the surplus or deficit to disappear.</p>	PwC	<p>The respondent suggests that, since the disclosure of the entity's funding policy is required under IFRS for SMEs, paragraph 125K should also be retained for Tier 2 entities</p> <p><b>[To be removed for public version:</b>  <i>Note that the disclosure requirements of 125K have been significantly amended in the revised IAS 19. The disclosure included in revised IAS 19 (paragraph 125M is provided below for reference:</i></p> <p><i>125M To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:</i></p> <ul style="list-style-type: none"> <li><i>(a) a narrative description of any funding arrangements and funding policy that affect future contributions.</i></li> <li><i>(b) the expected contributions to the plan for the next annual reporting period.</i></li> <li><i>(c) information about the maturity profile of the defined benefit obligation. This will include the</i></li> </ul>	<p><i>The requirements of paragraph 125K are included in paragraph 125M of revised IAS 19.</i></p> <p>Staff are of the view that the disclosure of an entity's funding policy is a more general disclosure requirement than the disclosure requirement in paragraph 125K (paragraph 125M of revised IAS 19). Staff believe that paragraph 125K (paragraph 125M of revised IAS 19) requires disclosure in addition to that which would be expected when providing disclosure of an entity's funding policy.</p> <p>Staff acknowledge that the respondent's argument is consistent with the 'user need' principle in paragraph 6 of 'Tier 2 Disclosure Principles'. Specifically, staff agree that the information disclosed in relation to the effect of the defined benefit plan on the entity's future cash flows meet users' information needs in terms of the entity's:</p> <ul style="list-style-type: none"> <li>• short-term cash flow status (principle 6(a) of 'Tier 2 Disclosure Principles'); and</li> <li>• liquidity and solvency (principle 6(b) of 'Tier 2 Disclosure Principles').</li> </ul> <p>However, staff are of the view that the cost of</p>

Extracted Disclosure Requirements in ED 195R	Respondent	Respondent's Comments	Staff Views
		<p><i><u>weighted average duration of the defined benefit obligation and may also include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.</u></i></p>	<p>disclosure required by paragraph 125K (paragraph 125M of revised IAS 19) surpasses the benefits. Based on the reasoning in paragraph 5, in relation to cost benefits, of the 'Tier 2 Disclosure Principles', and consistent with the proposal in ED 195R, paragraph 125K (paragraph 125M of revised IAS 19) should be excluded from the Tier 2 disclosure principles.</p>

**Note that staff have considered the responses to questions (b)-(e) in aggregate on the following page.**

- (b) whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals, particularly any issues relating to:**
- (i) not-for-profit entities; and**
  - (ii) public sector entities;**

Two respondents commented specifically on this question. One respondent (PwC) does not believe there are any regulatory or other issues that would affect the implementation of the proposals in the Australian environment. However, the other respondent (GT) believes that the proposed disclosure requirements would add significant complexity and costs to non-publicly accountable entities compared with that borne by similar structured overseas entities.

- (c) whether, overall, these proposals would result in financial statements that would be useful to users**

Two respondents commented specifically on this question. One respondent (PwC) believes that, subject to its comments provided in the previous table, these proposals would result in useful financial statements to the users. The other respondent (GT) is concerned that the disclosure required under these proposals could add significant complexity and costs to non-publicly accountable entities compared with similar structured entities overseas, therefore would not result in useful financial statements to the users.

- (d) whether these proposals are in the best interests of the Australian economy.**

Two respondents commented specifically on this question. One respondent, (GT) does not believe these proposals are in the best interests of the Australian economy, based on the reasons provided in response to previous questions. However, the other respondent (PwC) believes the reduced disclosure regime has significantly reduced the regulatory burden for entities that are eligible to report under Tier 2 reporting regime, and it is therefore in the best interest of the Australian economy if new standards can provide consistent disclosure relief for Tier 2 entities on a timely basis.

**(e) Are there any other cost or benefits associating with the proposals in Tier 2 Supplement to ED 195, quantitative or qualitative, which you believe should be considered?**

Two respondents commented specifically on this question. One respondent (GT) does not believe the proposals included in ED 195R are justified on cost-benefit grounds for the reasons provided in previous questions. The other respondent (PwC) suggests that, subject to the specific comments in the table above, there are no additional cost-benefit factors that need to be considered as part of these proposals.

**Staff View**

Staff are of the view that the proposed disclosure requirements for Tier 2 entities are significantly reduced compared with the requirements for Tier 1 entities without significantly affecting the benefit to users. Accordingly, staff recommend not to make any further disclosure amendments for Tier 2 entities as a result of the responses to questions (a)-(e) of ED 195R.