Risk Disclosures about Accrued Benefit Liabilities by Superannuation Entities

The purpose of this paper is to provide relevant information for the Board to decide on the disclosure principles and any related application guidance that should be included in the replacement standard for AAS 25 *Financial Reporting by Superannuation Plans* in relation to risks faced by superannuation entities in respect of accrued benefit liabilities.

The main disclosure issues relate to risks associated with defined benefit liabilities; rather than risks associated with defined contribution liabilities.

A key issue in the area of disclosure is catering to all types of relevant superannuation entities – whether they comprise:

* one stand-alone defined benefit plan;
* multiple defined benefit plans; or
* multiple defined benefit plans in combination with defined contribution plans.

1. Background

1.1 ED 223 *Superannuation Entities* (December 2011) proposed the following:

Financial Liabilities

ED 233.37 For the purpose of this Standard, a superannuation entity's obligations for member benefits are within the scope of AASB 7 *Financial Instruments*: *Disclosures*.

ED 233.38 Notwithstanding that employers' rights and obligations arising from employee benefit plans accounted for under AASB 119 are outside the scope of AASB 7, a superannuation entity would provide disclosures in relation to obligations for member benefits in accordance with the relevant principles and requirements in AASB 7, with the exception of the requirements relating to fair value disclosures.

ED 233.AG28 … In applying the relevant principles and requirements of AASB 7, an entity would give consideration to the characteristics of member benefits in determining the information it would provide. For example:

(a) if the benefits of defined contribution members are subject to vesting arrangements, the plan would consider the implications of the vesting arrangements for the expected benefits payable to such members in preparing its liquidity and solvency risk disclosures; and

(b) an entity with defined benefit members would disclose information in relation to whether it has a current funding and solvency certificate and, if so, the date on which the certificate is expected to expire, in the context of its disclosures in relation to liquidity risks if such information would provide users with an understanding of the entity's capacity to meet its obligations for member benefits.

ED 233.AG29 For the purpose of applying the disclosure principles and requirements in AASB 7, an entity would consider financial assets and any financial liabilities to be measured at fair value through profit or loss and the fair value disclosure requirements of AASB 7 need not be applied to these assets and liabilities.

Extent and Management of Risks Relating to Employer Sponsors of Defined Benefit Members

ED 233.39 A superannuation entity with defined benefit members shall disclose qualitative information that provides users with a basis for understanding the non-performance risk and/or economic dependency risk to which the plan is exposed in relation to the employer sponsor(s) of such members.

ED 233.40 To meet the objective in paragraph 39, an entity provides qualitative disclosures that are consistent with the types of information disclosed in accordance with paragraph 33 of AASB 7.

Liquidity Risks Relating to Non-financial Liabilities other than Tax Liabilities

ED 233.41 A superannuation entity shall disclose information that provides users with a basis for understanding the liquidity risks to which the entity is exposed to in relation to any non-financial liabilities other than tax liabilities that it holds.

ED 233.42 To meet the objective in paragraph 41, an entity provides disclosures that are consistent with the types of information disclosed in accordance with paragraphs 33 and 39 of AASB 7.

2. Feedback on ED 223 – written comments and December 2011 roundtables

2.1 Some constituents commented that there would be no practical difficulties in complying with the requirements of AASB 7 in respect of accrued benefit liabilities, as most funds currently disclose member benefits as current liabilities within AASB 7 note disclosures, deeming them to be transferrable at any time.

2.2 However, most constituents, and particularly those with more of a focus on defined benefit liabilities, expressed the view that application of AASB 7 presents significant interpretation issues, would diverge from the disclosure requirements in AASB 119 and would not produce useful information. The specific matters identified included the following.

- Credit risk: It is not apparent how credit risk will impact the measured value of member liabilities and general uncertainty about how to reliably and consistently measure changes in credit risk.
- Liquidity risk: Superannuation obligations typically have no contractual maturity, yet it would not be expected that they would necessarily be turned over frequently and treating them as being effectively ‘at call’ would not lead to the provision of useful information on liquidity risks. Disclosures about liquidity based on expected cash flows would be more useful. Where there are life-time pensioners, AASB 7-style information would probably be particularly unhelpful.
- Market risk: Measuring the impact of market movements for defined contribution liabilities in isolation is not useful, and it would need to be matched with associated assets. As a large portion of defined benefit plans have a defined contribution (hybrid) element, calculations required for disclosure are potentially complex and are beyond the existing capability of information systems.

2.3 Some constituents recommended that the AASB compare the disclosure requirements of AASB 7 and AASB 119, and decide which best fits risk disclosure requirements for superannuation entities.

2.5 Some constituents emphasised that risk disclosures at the whole-of-entity level are not particularly important because there are various investment options and each member (or, in the case of defined benefits, each employer) can have different risk preferences that are better catered for in individual member statements or communications with employers, rather than general purpose financial statements.

3. Board tentative decisions since ED 223

3.1 At its October-November 2012 meeting, after considering the feedback on ED 233, the Board tentatively decided it should identify disclosure principles in relation to funding risks, liquidity risks and market risks (where relevant, using the principles underlying related requirements in other Standards). In this context, the Board noted that:

(a) in relation to defined contribution liabilities, the disclosure principles in AASB 7 would be relevant; and

(b) in relation to defined benefit liabilities, most of the disclosure principles in AASB 7 are not readily applicable, and the replacement standard for AAS 25 *Financial Reporting by Superannuation Plans* should directly set out disclosure principles and related guidance on explaining the quantitative and/or qualitative information that would be useful, including:

(i) how any funding deficit is expected to be met – the Board acknowledged that the trustees' role is to provide the facts and not make disclosures explicitly about the credit-worthiness of employer sponsors [see section 4 of this paper];

(ii) the basis for assumptions and manner in which they are determined [see section 5 of this paper]; and

(iii) the sensitivity of the liabilities to changes in key assumptions [see section 6 of this paper].

3.2 Based on these tentative decisions, staff conducted targeted consultation with key constituents between November 2012 and March 2013 to help determine how the relevant disclosure principles for defined benefit liabilities should be framed, including seeking feedback on the feasibility of various disclosure options.

3.3 The remainder of this paper is structured around the three disclosure principles identified in paragraph 3.1(b).

4. How any funding deficit is expected to be met

Consultation since November 2012

4.1 Those consulted on the tentative decision to require disclosure about how any funding deficit is expected to be met highlighted a number of issues, including the following.

* Superannuation entities with multiple plans: In a multi-plan superannuation entity, the manner in which the trustee manages the deficits of particular plans differs from plan to plan. This is because some employer-sponsors are considered better credit risks than others. Accordingly, it might be appropriate for the trustee to seek a long-term plan for funding from some employer-sponsors; however, for others the trustee might seek more immediate funding of a deficit. It might also be helpful to refer to the disclosure requirements in AASB 119 in relation to multi-employer funds.
* Perhaps disclosure could be made of the trustee's process for acting on deficits.
* It is relevant to disclose how a plan is dealing with a deficit because members have the concern that their benefits may not be paid in full.
* The disclosure would presumably be about facts, not opinions about whether employer-sponsors are creditworthy.
* A proper funding plan to meet a deficit might not exist in a public sector plan – the government may just plan to pay-as-you-go out of ongoing revenues.
* The funding disclosures might not be relevant to public sector plans because that type of information is located in the budget papers, at least for the period of the forward estimates.
* To some degree the deficits (at least in the private sector superannuation plans) should reduce because of the new APRA requirements and increased Superannuation Guarantee percentages.
* There should be disclosure about what can be done with surpluses, which is important to many employer-sponsors in making funding decisions.

Analysis of relevant requirements in other standards in a defined benefit liability context

4.2 The following analysis provides staff comments drawing on relevant disclosure principles and guidance in relevant parts of AASB 119 *Employee Benefits* and AASB 7 *Financial Instruments: Disclosures*.

4.3 The relevant paragraphs from AASB 119 and AASB 7 are as follows:

> AASB 119.146 An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.
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> AASB 119.147 To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:
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> (a) a description of any funding arrangements and funding policy that affect future contributions.

(b) the expected contributions to the plan for the next annual reporting period.

(c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

AASB 7.39 An entity shall disclose:

(a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

(b) a maturity analysis for derivative financial liabilities. ….

(c) a description of how it manages the liquidity risk inherent in (a) and (b).

4.4 Paragraphs 146 and 147 of AASB 119 were introduced in the 2011 revisions. In making the revisions, the IASB considered a number of alternatives, including disclosure of specific strategies, for example, on investment; or requiring disclosure of the specific risks facing the plan. The Basis for Conclusions to IAS 19 [paragraphs BC230 to 234] explains that the IASB considered the best way of obtaining useful information about the risks inherent in a defined benefit plan is to require a description of any asset-liability matching strategies used and the maturity profile and funding of the plan.

4.5 Paragraph BC58 of IFRS 7 notes that, when developing IFRS 7, respondents expressed concerns that analysis based on contractual maturities does not reveal the expected maturity of liabilities, nor does it provide information about the conditions expected in normal circumstances or how the entity manages deviations from expected maturity. On this basis the IASB decided to require a description of how the entity manages the liquidity risk portrayed by the contractual maturity analysis.

4.6 The 'maturities' associated with defined benefit liabilities are expected maturities, not 'contractual' maturities. Accordingly, using the logic in the IFRS 7 Basis for Conclusions, it might be concluded that, in a superannuation entity context, a description of how the entity manages the liquidity risk inherent in defined benefit liabilities might be useful.

4.7 Staff consider that the relevant information about particular risks is probably best provided through the disclosures on the assumptions used to determine the amounts of defined benefit liabilities (see section 5 below).

Staff comments and recommendations

4.8 Staff recommend there be a disclosure principle in the replacement standard for AAS 25 that asks for information on how the funding of defined benefit liabilities is expected to be managed, including the related liquidity risks and, in particular, the management of deficits and/or surpluses. Explanatory material about how the principle might be met should also be included in the Standard itself or in the Application Guidance.

4.9 Notwithstanding that AASB 119 is written from an employer perspective, some of the disclosures required in paragraphs 146 and 147 of AASB 119 are generally relevant to a superannuation entity context and should be used as the basis for some of that explanatory material. In particular, staff recommend including explanatory material that mentions:

(a) funding arrangements, potentially drawing on actuarial assessments, any agreements with employer-sponsors, and any relevant legislation;

(b) information on the maturity profile of the accrued defined benefit liabilities (consistent with information required by paragraphs 39(a) and 39(b) of AASB 7 in respect of financial liabilities);

(c) whether surpluses can be returned to employer-sponsors; and

(d) measures taken to manage liquidity risk and any asset-liability matching strategies (consistent with information required by paragraph 39(c) of AASB 7 in respect of financial liabilities).

4.10 To cater for superannuation entities with multiple defined benefit plans, the explanatory material should note that the disclosures about funding arrangements would need to be sufficiently broad to cover plans that have different circumstances. In the case of some public sector plans, staff also recommend the explanatory material note that the process for seeking funds from government would be relevant information in helping to meet the disclosure principle requirement.

4.11 To mitigate constituent concerns that disclosure requirements about funding might be onerous and highly sensitive (in terms of employer-sponsor creditworthiness), the Application Guidance should emphasise that the disclosures are to be based on the facts concerning the characteristics of defined benefit liabilities and the processes in place to meet any deficits. That is, the disclosure requirements are not calling for opinions about whether any particular deficits will be met or the creditworthiness of employer-sponsors.

Board members are asked to identify their views on the staff comments and recommendations in paragraphs 4.8 to 4.11.

5. Basis for assumptions and the manner in which they are determined

Consultation since November 2012

5.1 Those consulted on the tentative decision to require disclosure about the basis for assumptions and manner in which they are determined highlighted a number of issues, including the following.

* Disclosure of the assumptions themselves, rather than their basis, would be more helpful; however, this would be problematic for multi-plan entities.

* It might be best to require disclosure of the trustee's policies on ensuring that actuarial assumptions are reasonable, which would be relevant for single plan or multi-plan entity.

* There should at least be disclosure about the discount rate assumption and how it has been determined, which might involve a narrative on target investment returns and on expected salary inflation.
* In the case of plans with pensioners, the mortality assumption would need to be explained.
* In the case of plans that provide indexed pensions, the indexation assumption (normally CPI) would need to be explained.

Analysis of relevant requirements in other standards in a defined benefit liability context

5.2 The following analysis provides staff comments drawing on relevant disclosure principles and guidance in relevant parts of AASB 119, AASB 7 and AASB 4 *Insurance Contracts*.

5.3 The relevant paragraphs from AASB 119, AASB 7 and AASB 4 are as follows:

AASB 119.144 An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 76). Such disclosure shall be in absolute terms (eg as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

AASB 7.27 An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.

AASB 4.36 An insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.

AASB 4.37 To comply with paragraph 36, an insurer shall disclose:

(a) …;

(b) …;

(c) the process used to determine the assumptions that have the greatest effect on the measurement of the recognised amounts described in (b). When practicable, an insurer shall also give quantified disclosure of those assumptions;

(d) the effect of changes in assumptions used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements; and

(e) ….

5.4 Information about: (1) the process of determining assumptions; (2) the assumptions themselves; and (3) the impact of changes in assumptions; each potentially reveal useful information about the risks underlying a defined accrued benefit liability. AASB 119, AASB 7 and AASB 4 each take different positions on these disclosures with respect to defined accrued benefit liabilities, financial liabilities, and insurance contract liabilities.

5.5 There are no requirements in AASB 119 that seek disclosure of the basis for assumptions and the manner in which they are determined. Instead, the focus is on the assumptions themselves and the impacts that changed assumptions have had. In that respect, paragraph BC219 of IAS 19 comments: "The amendments made to IAS 19 in 2011 require entities to disclose the effect of changes in demographic assumptions separately from the effect of changes in financial assumptions. Some respondents to the 2010 ED stated that this separation would be arbitrary because of the interrelationships between some actuarial assumptions, particularly between financial assumptions. For example, discount rates would generally be correlated with inflation rates. However, the Board observed that, in general, financial assumptions are less intertwined with demographic assumptions than with other financial assumptions. Thus, the Board concluded that it would not be unduly difficult to distinguish the effects of changes in financial assumptions from the effects of changes in demographic assumptions."

5.6 Paragraph BC228 of IAS 19 goes on to note: "The Board did not specify particular assumptions for which disclosure is required, because particular disclosures may not be needed in every case to meet the disclosure objectives. Indeed, such disclosures may obscure important information with excessive detail. Accordingly, the 2010 ED proposed an approach in which entities would use judgement to determine which actuarial assumptions require disclosure. Respondents to the 2010 ED generally supported this proposal."

5.7 AASB 119 deals with the issue of multiple plans (in paragraph 144) by requiring disclosure of averages or relatively narrow ranges for assumptions.

5.8 The focus of the AASB 7 disclosures is also on the assumptions themselves. Furthermore, AASB 7 requires disclosure about the valuation 'methods' applied, which would probably give some insight to how assumptions have been determined.

5.9 The focus of AASB 4 [paragraph 37(c)] is on disclosure of the process used to determine the assumptions that have the greatest effect on the measurement of the assets, liabilities, income and expense items arising from insurance contracts and any reinsurance contracts. It also requires quantified disclosure of those assumptions, when practicable.

5.10 Paragraph BC212 of IFRS 4 notes that: "Some expressed concerns that information about assumptions and changes in assumptions might be costly to prepare and of limited usefulness. There are many possible assumptions that could be disclosed: excessive aggregation would result in meaningless information, whereas excessive disaggregation could be costly, lead to information overload, and reveal commercially sensitive information. In response to these concerns, the disclosure about the assumptions focuses on the process used to derive them."

5.11 Therefore, AASB 4 deals with the issue of 'excessive aggregation' by requiring disclosure of the process used to determine the assumptions, rather than the assumptions themselves. This is consistent with the AASB's tentative decision to focus disclosure about the basis for assumptions and the manner in which they are determined.

5.12 Paragraph BC212 of IFRS 4 goes on to say: "Some respondents argued that it is difficult to disclose meaningful information about changes in interdependent assumptions. As a result, an analysis by sources of change [see paragraph 37(d)] often depends on the order in which the analysis is performed. To acknowledge this difficulty, the IFRS does not specify a rigid format or contents for this analysis. This allows insurers to analyse the changes in a way that meets the objective of the disclosure and is appropriate for the risks they face and the systems that they have, or can enhance at a reasonable cost."

5.13 AAS 25 currently requires a copy or summary of the most recent actuarial report prepared for the plan to be included in the financial report [paragraph 63] and recommends (rather than requires) "… that the copy or summary of the most recent actuarial report include disclosure of the actuarial assumptions which have had a significant effect on the measurement of accrued benefits, changes in those assumptions since the previous actuarial report and any relevant actuarial ratios" [paragraph 64].

Staff comments and recommendations

5.14 On balance, staff consider that the replacement standard for AAS 25 should:

(a) require disclosure of the significant assumptions (themselves) in the context of each superannuation entity's circumstances;

(b) include guidance that notes, in the case of superannuation entities with multiple defined benefit plans, the disclosure of assumptions may need to be provided as ranges or weighted averages;

(c) not require disclosure of the process used to determine the assumptions (because it would probably result only in 'boilerplate' type disclosure); and

(d) require disclosure of the effect of changes in demographic assumptions separately from the effect of changes in financial assumptions (to help provide a basis for understanding the underlying trends affecting the plan).

5.15 Staff note that without disclosure of the significant assumptions (themselves), it would not seem logical to require the disclosure of the sensitivity of the liabilities to changes in significant assumptions. (Please see the next section of this paper).

5.16 Staff consider that it would be helpful to include application guidance noting that the discount rate assumption is likely to virtually always be significant and that the significance of assumptions about other factors, such as salary inflation, price inflation and mortality, will depend on the circumstances.

Board members are asked to identify their views on the staff comments and recommendations in paragraphs 5.14 to 5.16.

6 Sensitivity of the liabilities to changes in significant assumptions

Consultation since November 2012

6.1 Those consulted on the tentative decision to require disclosure about the sensitivity of the liabilities to changes in key assumptions highlighted a number of issues, including the following.

* Concern was expressed for those plans that have a large number of significant assumptions, such as on earning rates, salary adjustments, mortality and pension CPI, which may lead to a complex matrix of disclosures that would be difficult to usefully interpret.
* The sensitivity for a 1% change in discount rate would be potentially helpful, but probably not other assumption sensitivities.
* The relevant assumptions will differ from plan to plan – in a plan offering indexed pensions, mortality and CPI assumptions can be relevant.
* Some plans show sensitivity separately for the expected investment rate and the expected salary inflation rate, rather than for the discount rate as whole.
* Sensitivity disclosure could be particularly problematic for multi-plan entities. AASB 119 includes disclosures worded to cover employers that sponsor multiple plans and this precedent may be helpful.
* Some governments prepare reports every three years other than GPFS that include sensitivity analysis on a number of assumptions, including the discount rate, CPI (for indexed pensions), salary adjustments – it would be costly to have to prepare these numbers for the two year ends in-between.
* Sensitivity disclosures are often included in the actuary's report as part of the triennial funding calculation and these would probably be a reasonable basis for determining sensitivities in the intervening years in the absence of any significant events that would indicate otherwise.
* It would be better to just require narrative around the sensitivity of major assumptions, particularly in between triennial accrued benefit valuations. The narrative could focus on changes that have arisen since the triennial valuation.
* Some plans show how a large drop in asset prices (such as a 10% fall in investment values) would impact on the plan deficit/surplus.

Analysis of relevant requirements in other standards in a defined benefit liability context

6.2 The following analysis provides staff comments drawing on relevant disclosure principles and guidance in relevant parts of AASB 119, AASB 7 and AASB 4.

6.3 The relevant paragraphs from AASB 119, AASB 7 and AASB 4 are as follows:

> AASB 119.145 An entity shall disclose:
>
> (a) a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 144) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.
>
> (b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

AASB 7.40 Unless an entity complies with paragraph 41,[1] it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;

(b) the methods and assumptions used in preparing the sensitivity analysis; and

(c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

AASB 4.38 An insurer shall disclose information that helps users to understand the amount, timing and uncertainty of future cash flows from insurance contracts.

AASB 4.39 To comply with paragraph 38, an insurer shall disclose:

(a) its objectives in managing risks arising from insurance contracts and its policies for mitigating those risks;

(b) those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows;

(c) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about:

(i) sensitivity to insurance risk (see paragraph 39A);

(ii) …; and

(iii) actual claims compared with previous estimates (i.e. claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year;

….

AASB 4.39A To comply with paragraph 39(c)(i), an insurer shall disclose either (a) or (b) as follows:

(a) a sensitivity analysis that shows how profit or loss and equity would have been affected if changes in the relevant risk variable that were reasonably possible at the end of the reporting period had occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of AASB 7; and

(b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

1 Paragraph 41 allows an entity that "prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables …" it can disclose that analysis instead. However, superannuation entities are not expected to be undertaking that type of analysis.

6.4 The requirements to provide a sensitivity analysis in respect of defined benefit liabilities of employer-sponsors were introduced in the 2011 revision of AASB 119. The IAS 19 Basis for Conclusions notes: "Users of financial statements have consistently emphasised the fundamental importance of sensitivity analyses to their understanding of the risks underlying the amounts recognised in the financial statements." [paragraph BC236]

6.5 The IAS 19 Basis for Conclusions also explains that, when it proposed the sensitivity disclosure requirements, respondents commented that:

"(a) The sensitivity disclosure would not take into account the correlations between various actuarial assumptions. Some respondents suggested that a scenario analysis would be more useful. The Board concluded that, although a scenario analysis could provide more useful information, the complexity and cost of producing the information would outweigh the benefits.

(b) Some respondents were concerned that carrying out a series of sensitivity analyses on several actuarial assumptions would be onerous. Some requested that the sensitivity analysis should be limited to the assumptions that have a significant effect on the financial statements, such as the discount rate. The Board agreed with these respondents that in many cases the discount rate would be one of the most significant assumptions. However, depending on the plan and other facts and circumstances, other assumptions might be significant. The 2010 ED proposed that the sensitivity analysis should apply only to 'significant actuarial assumptions'. Consequently, the Board confirmed that proposal.

(c) Some respondents raised a concern that a 'reasonably possible' change is open to subjectivity and suggested that IAS 19 should specify a quantitative range. However, although setting the range to a particular percentage might improve comparability, the Board was concerned that a quantitative range might not reflect the reasonably possible ranges in different circumstances. The Board noted that requiring sensitivity on the basis of changes in the relevant actuarial assumption that were 'reasonably possible' at that date is consistent with the sensitivity disclosure requirements of other standards, such as IFRS 7." [paragraph BC239]

6.6 Much of the feedback that the IASB received on its ED relating to the IAS 19 revision on sensitivity disclosures is highly similar to that received by AASB staff in recent targeted consultation (as noted earlier in the paper).

6.7 The sensitivity disclosure requirements in AASB 7 for financial liabilities are effectively the equivalent of those required in AASB 119 in respect of defined benefit liabilities.

6.8 In relation to sensitivity analysis for insurance contract liabilities, the Basis for Conclusions to IFRS 4 explains that the IASB decided against including specific requirements that may not be appropriate in every case and could impede the development of more useful forms of disclosure or become obsolete, and instead to require a sensitivity analysis for all variables that have a material effect. [paragraphs BC218 and BC219]

6.9 The claims development information on insurance contract liabilities required by AASB 4 is effectively an historical analysis of how well the entity estimates those liabilities that can provide insights into their sensitivity to various factors. The Basis for Conclusions to IFRS 4 notes; "… this disclosure is important because it gives users insights into the uncertainty surrounding estimates about future claims, and also indicates whether a particular insurer has tended to overestimate or underestimate ultimate payments." [paragraph BC221]

6.10 AASB staff note that disclosures about the 'development' or changes over time in liabilities is particularly suitable in the context of insurance contract liabilities because it helps to show the impact of the claims experience and because particular cohorts of claims are generally able to be tracked on an 'accident year' or similar basis. In contrast, it is less likely that it would be useful to produce disclosures of this nature in respect of defined benefit liabilities because a main driver of change in the liabilities is normally discount rate changes, rather than experience gained by the entity with a particular body of claims.

Staff comments and recommendations

6.11 Staff consider that the replacement standard for AAS 25, consistent with AASB 119 and AASB 7, should require disclosure of:

(a) a sensitivity analysis for each significant actuarial assumption, showing how the accrued defined benefit liability would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the reporting date;

(b) the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods; and

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

6.12 Staff consider that it would be helpful to include application guidance noting that, when there is more than one significant assumption, the sensitivity analysis would be expected to be performed on each significant assumption in isolation, rather than in combination. This is on the basis that a combined analysis could give rise to overly complex information that, on balance, staff consider would not be cost-beneficial.

6.13 Staff consider it would be relevant to require narrative disclosure about the interaction of the various changes in assumptions in cases where this would help explain the sensitivity analysis performed on each significant assumption in isolation.

Board members are asked to identify their views on the staff comments and recommendations in paragraphs 6.11 to 6.13.