

AASB ED 195 *Defined Benefit Plans (proposed amendments to AASB 119) and IFRS for SMEs Section 28 Employee Benefits*

1. Executive Summary

AASB ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*

1. The AASB has issued AASB ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*, which incorporates the IASB Exposure Draft ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19*. The purpose of this Agenda paper is to identify which proposed disclosures in ED 195 should be excluded from the Reduced Disclosure Regime (RDR).
2. In determining the proposed reduced disclosure requirements, consideration is given to:
 - (a) the ‘Tier 2 Disclosure Principles’, a copy of which is contained in Section 5 of this Agenda paper; and
 - (b) the disclosure requirements for employee benefits in the *IFRS for SMEs*. Section 2 of this Agenda paper provides a comparison between the proposed disclosures contained in AASB ED 195 and Section 28 *Employee Benefits* of the *IFRS for SMEs*.
3. As discussed below, there are a number of differences between the proposals in ED 195 and the requirements in Section 28 *Employee Benefits* of the *IFRS for SMEs* in respect of the measurement, recognition and presentation of obligations for employee benefits. In addition, ED 195 proposes changes to the definitions of ‘short-term employee benefits’, ‘post-employment benefits’ and ‘defined benefit plans’ that would potentially increase the level of disclosures an entity would be required to make in relation to obligations currently defined as ‘other long-term employee benefits’ (such as obligations for long-service leave and annual leave expected to become due to be settled twelve months after the end of the reporting period). Nevertheless, the *IFRS for SMEs* is still relevant in this context in providing a basis, in some cases, for determining the proposed reduced disclosures.

Main differences in definitions

4. ED 195 proposes the following amendments to the definitions of short-term employee benefits, post-employment benefits and defined benefit plans.

“Short-term employee benefits are employee benefits (other than termination benefits) that the entity expects to become ~~are~~ due to be settled within twelve months after the end of the reporting period in which the employees renders the related service and before the completion of employment.”

~~“Post-employment~~ Long-term employee benefits are employee benefits (other than termination benefits) ~~which are payable after the completion of employment.~~ that the entity expects to become due to be settled:

- (a) twelve months after the end of the reporting period in which the employee renders the related service; or
- (b) after the completion of employment.”

“Defined benefit plans are ~~post-employment~~ long-term employee benefit plans other than defined contribution plans.”

5. ED 195 also proposes removing all references to ‘other long-term employee benefits’ and requiring employee benefits that had previously been categorised as other long-term employee benefits to be accounted for on the same basis as defined benefit plans. Such other long-term employee benefits include:
 - (a) long-term compensated absences such as long-service leave or sabbatical leave;
 - (b) jubilee or other long-service benefits;
 - (c) long-term disability benefits;
 - (d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employee renders the related service; and
 - (e) deferred compensation paid twelve months or more after the end of the period in which it is earned.
6. The *IFRS for SMEs* retains the terms ‘short-term employee benefits’, ‘post-employment benefits’ and ‘defined benefit plans’ for distinguishing between different types of employee benefits. Based on the IASB’s decisions to date about updating procedures for the *IFRS for SMEs*, if the proposed amendments in ED 195 were adopted, it is unlikely that the IASB would make consequential amendments to Section 28 of the *IFRS for SMEs* until some time after July 2012.

Main differences in measurement

7. ED 195 proposes some changes to the basis on which interest expense on a defined benefit plan is calculated. These proposals, however, would not alter the manner in which defined benefit obligations are measured under AASB 119.
8. Currently under AASB 119, interest expense is calculated by multiplying the discount rate as at the start of the reporting period by the present value of the defined benefit obligation throughout the period (which in most cases will be the average obligation). Under the proposals in ED 195, interest expense (or income) would be calculated on a similar basis, except that the discount rate would be applied to the average net defined benefit liability (asset). In addition, the difference between the ‘interest income’ on the plan assets and the actual return on plan assets would be recognised as a part of remeasurements of the net defined benefit liability (asset) in other comprehensive income (OCI). Nevertheless, an entity’s net total expense or income in relation to its defined benefit plans would be measured at the same amount under the current and proposed approaches. Accordingly, if the proposals in ED 195 were adopted, the current differences between the measurement approaches under AASB 119 and the *IFRS for SMEs* for defined benefit obligations would remain unchanged.

9. AASB 119 requires a defined benefit obligation to be measured at the present value of the expected future benefit payments using the Projected Unit Credit Method (PUCM). In contrast, the *IFRS for SMEs* permits a defined benefit obligation to be measured using a simplified version of the PUCM where the entity is not able, without undue cost or effort, to use the PUCM. Where a simplified version is applied, the following simplifications are permitted with respect to current employees:
 - (a) ignore estimated future salary increases;
 - (b) ignore future service of current employees; and
 - (c) ignore possible in-service mortality of current employees between the reporting date and the date current employees are expected to begin receiving post-employment benefits. However, if relevant, mortality after service (i.e. life expectancy) will still need to be considered.
10. As a consequence of the potential differences in the measurement of defined benefit obligations under AASB 119 and the *IFRS for SMEs*:
 - (a) some of disclosure requirements in AASB 119 have been modified for the purpose of the *IFRS for SMEs* to facilitate consistent disclosures by entities not measuring their defined benefit obligations on the same basis under the IFRS for SMEs requirements [such as paragraphs 28.41(e) and (f)]; and
 - (b) the *IFRS for SMEs* includes some disclosures not required under AASB 119 [such as paragraphs 28.41(c) and (d)].

Main differences in recognition and presentation

11. Some of the proposed changes in ED 195 would, if adopted, more closely align the requirements for defined benefit plans in AASB 119 with the corresponding requirements in the *IFRS for SMEs*. Examples of such changes include the proposals for:
 - (a) all changes in a defined benefit obligation and the fair value of plan assets to be recognised when they occur (that is, removal of the ‘corridor’ approach);
 - (b) unvested past service cost to be recognised when the related plan amendment occurs; and
 - (c) gains and losses arising from curtailments and plan amendments to be recognised in profit or loss.
12. However, some of the proposed changes in ED 195 would, if adopted, also create further differences between the requirements in AASB 119 and the corresponding requirements in the *IFRS for SMEs*. Examples of such changes include the proposals for:
 - (a) defined benefit cost to be disaggregated into service cost, finance cost and remeasurements. The *IFRS for SMEs* requires service cost, interest expense and actuarial gains and losses (subject to the entity’s accounting policy election) to be recognised in the cost of the defined benefit plan;
 - (b) actuarial gains and losses to be recognised in profit or loss. The *IFRS for SMEs* permits an entity to recognise all actuarial gains and losses in profit or loss or in OCI; and

- (c) gains and losses on settlements to be recognised in OCI (as a part of remeasurements), and gains and losses on curtailments and plan amendments to be recognised in profit or loss. The *IFRS for SMEs* requires gains and losses on settlements, curtailments and plan amendments to be recognised in profit or loss.

Disclosure proposals

13. It is proposed to:

- (a) include the proposed changes in ED 195 in Tier 2 to the extent that their inclusion is justified on the basis of users' needs [paragraphs 33A(a), 33A(b), 33A(d), 33A(e), 33A(f)(i), 33A(f)(ii), 33A(f)(iv), 36, 125A(a), 125A(b), 125B, 125C(a), 125D(a)(i), 125D(a)(ii), 125D(b), 125E(f), 125E(g), 125F and 125G(a)];
- (b) exclude the proposed changes in ED 195 from Tier 2 to the extent that they are not justified on cost-benefit grounds and/or are more onerous than the equivalent *IFRS for SMEs* requirements [paragraphs 33A(c), 33A(f)(iii), 34B, 125A(c), 125C(a)(i)-(iv), 125C(b), 125C(c), 125D(a)(iii), 125E(a), 125E(b), 125E(c), 125E(d), 125E(e), 125E(h), 125G(b), 125H and 125I-125K];
- (c) delete paragraph RDR120A.1 because the proposals in paragraphs 125B, 125D(a)(i)-(ii) and 125D(b) of ED 195 would result in similar or the same disclosures; and
- (d) amend paragraph RDR120A.2 to reflect the proposed changes to the numbering of the paragraphs dealing with reconciliations.

2. Analysis of proposed substantive changes to disclosure requirements¹

Text in AASB ED 195	Text in <i>IFRS for SMEs</i> Section 28	Comments
<p><u>Disclosure</u></p> <p><u>33A If an entity participates in a defined benefit multi-employer plan, it shall disclose:</u></p> <p><u>(a) a description of the funding arrangements, including the method used to determine the entity’s rate of contributions and any minimum funding requirements.</u></p> <p><u>(b) the extent to which the entity can be liable to the plan for other entities’ obligations under the terms and conditions of the multi-employer plan.</u></p> <p><u>(c) the total number of, and the entity’s proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available.</u></p> <p><u>(d) details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan.</u></p> <p><u>(e) if the entity accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in accordance with paragraph 29A, all the information required by paragraphs 125A–125K for that proportionate share.</u></p> <p><u>(f) if the entity accounts for the plan as if it were a defined contribution plan in accordance with paragraph 30:</u></p> <p><u>(i) the fact that the plan is a defined benefit plan.</u></p> <p><u>(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.</u></p> <p><u>(iii) the expected contributions to the plan for the</u></p>	<p>28.40 An entity shall disclose the amount recognised in profit or loss as an expense for defined contribution plans. If an entity treats a defined benefit multi-employer plan as a defined contribution plan because sufficient information is not available to use defined benefit accounting (see paragraph 28.11) it shall disclose the fact that it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan’s surplus or deficit and the implications, if any, for the entity.</p>	<p>Under the proposals in ED 195, all entities that participate in a defined benefit multi-employer plan would disclose the information required in paragraphs 33A(a)-(d).</p> <p>When an entity has an interest in a defined benefit multi-employer plan and sufficient information is available for the entity to account for its proportionate share of the defined benefit obligation, plan assets and cost, the entity would also disclose all the information required by paragraphs 125A-125K in respect of its proportionate share [as per paragraph 33A(e)].</p> <p>When sufficient information is not available for an entity to use defined benefit accounting to account for its interest in a defined benefit multi-employer plan, the entity accounts for the plan as if it were a defined contribution plan and discloses the additional information required in paragraph 33A(f).</p> <p>The first sentence in paragraph 28.40 of the <i>IFRS for SMEs</i> is discussed below in relation to paragraph 125D of ED 195.</p> <p>Paragraphs 33A(a)-(d) have no equivalents in the <i>IFRS for SMEs</i>.</p> <p>Based on the reasoning in paragraphs 6(a) and 6(f) of the ‘Tier 2 Disclosure Principles’ (see Section 5 of this Agenda paper), paragraphs 33A(a), (b) and (d) should be retained in Tier 2.</p> <p>Based on the reasoning in paragraph 5 (cost-benefit) of the ‘Tier 2 Disclosure Principles’, paragraph 33A(c) should be</p>

¹ For the sake of brevity, the changes proposed in ED/2010/3 to paragraphs 29A, 30, 32, 38 and 104C have not been included in this Table. The proposed changes in these paragraphs include cross-references to the substantive disclosure proposals that have been included in this Table. The text of the changes proposed in ED 195 to paragraphs 29A, 30, 32, 38 and 104C has been included in Section 3 of this Agenda paper.

Text in AASB ED 195	Text in <i>IFRS for SMEs</i> Section 28	Comments
<p><u>next five annual reporting periods, and a description of the contractual agreement or other basis used to determine the expected contributions.</u></p> <p>(iv) <u>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.</u></p>		<p>excluded from Tier 2. Information about the number and types of defined benefit members an entity has is not directly relevant to an understanding of the matters listed in paragraph 6(a)-(f) of the ‘Tier 2 Disclosure Principles’. However, compliance with paragraph 33A(c) would impose a cost on entities.</p> <p>Under the <i>IFRS for SMEs</i>, an entity that accounts for its proportionate share of the defined benefit obligation, plan assets and cost would adopt a similar approach to that proposed in paragraph 33A(e).</p> <p>As it is proposed that some of the disclosures in paragraphs 125A-125K of ED 195 be retained in Tier 2 and some be excluded from Tier 2 (see discussion below):</p> <p>(a) paragraph 33A(e) should also be retained in Tier 2; but</p> <p>(b) the word “all” in paragraph 33A(e) should be excluded from Tier 2.</p> <p>The second sentence in paragraph 28.40 of the <i>IFRS for SMEs</i> corresponds to paragraphs 33A(f)(i), (ii) and (iv). Based on the reasoning in paragraphs 6(a), 6(d) and 6(f) of the ‘Tier 2 Disclosure Principles’, paragraphs 33A(a), (b) and (d) should be retained in Tier 2.</p> <p>[Currently under the RDR, an entity is required to provide information consistent with the types of information required under the proposals in paragraphs 33A(f)(i), (ii) and the first part of (iv)].</p> <p>Based on the reasoning in paragraph 5 (cost-benefit) of the ‘Tier 2 Disclosure Principles’, paragraph 33A(f)(iii) and the second part of paragraph 33A(f)(iv) (from the word ‘including’) should be excluded from Tier 2.</p> <p>The proposed five year time frame for expected contributions in paragraph 33A(f)(iii) is not consistent with the three year (or more frequent) timeframe adopted for actuarial reviews in Australia. Accordingly, compliance</p>

Text in AASB ED 195	Text in <i>IFRS for SMEs</i> Section 28	Comments
		<p>with paragraph 33A(f)(iii) would impose a cost on entities. Furthermore, paragraph 33A(a) would arguably require an entity to provide similar types of information as paragraph 33A(f)(iii), which it is proposed be retained in Tier 2 (see discussion above). Accordingly, retaining paragraph 33A(f)(iii) in Tier 2 would not be cost-beneficial.</p> <p>The second part of paragraph 33A(f)(iv) would arguably require an entity to provide similar types of information as paragraph 33A(a), which it is proposed be retained in Tier 2 (see discussion above). However, compliance with the second part of paragraph 33A(f)(iv) would require an entity to disclose more detailed information than paragraph 33A(a), and therefore impose a cost on entities. Accordingly, retaining the second part of paragraph 33A(f)(iv) in Tier 2 would not be cost-beneficial.</p>
<p>Defined benefit plans that share risks between various entities under common control</p> <p>34B Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:</p> <ul style="list-style-type: none"> (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy. (b) the policy for determining the contribution to be paid by the entity. (c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, all the information about the plan as a whole in accordance with required by paragraphs 125A–125K120–121. (d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole required in accordance with by paragraphs 125A–125C, 125F, 		<p>Paragraph 34B has no equivalent in the <i>IFRS for SMEs</i>.</p> <p>Based on the reasoning in paragraph 5 (cost-benefit) of ‘Tier 2 Disclosure Principles’, paragraph 34B should be excluded from Tier 2. Information about how the cost of a group’s defined benefit arrangements is allocated between the various entities within the group is not directly relevant to an understanding of the matters listed in paragraph 6(a)-(f) of the ‘Tier 2 Disclosure Principles’ with respect to the group. However, compliance with paragraph 34B would impose a cost on entities.</p> <p>[Paragraph 34B of AASB 119 is currently excluded from Tier 2 (see Section 4 of this Agenda paper). In addition, paragraph 20 of AASB 124, which contains a cross-reference to paragraph 34B of AASB 119, is excluded from Tier 2.]</p>

Text in AASB ED 195	Text in <i>IFRS for SMEs</i> Section 28	Comments
<p>125G and 125K, 120A(b) (e), (j), (n), (o), (q) and 121. The other disclosures required by paragraph 120A do not apply.</p>		
<p>State plans</p> <p>36 An entity shall account for a state plan in the same way as for a multiemployer plan (see paragraphs 29 and 30) and disclose the information required by paragraph 33A.</p>	<p>Multi-employer plans and state plans</p> <p>28.11 Multi-employer plans and state plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan, including any constructive obligation that goes beyond the formal terms. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall account for the plan in accordance with paragraph 28.13 as if it was a defined contribution plan and make the disclosures required by paragraph 28.40.</p>	<p>Paragraph 36 corresponds to paragraph 28.11 of the <i>IFRS for SMEs</i>.</p> <p>To facilitate consistent disclosures by entities with state plans and multi-employer plans, paragraph 36 should be retained in Tier 2.</p> <p>[Currently, paragraph 36 is included in Tier 2.]</p>
<p>Disclosure</p> <p>125A An entity shall disclose information that:</p> <p>(a) explains the characteristics of its defined benefit plans (see paragraph 125C);</p> <p>(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 125D–125H); and</p> <p>(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity’s future cash flows (see paragraphs 125I–125K).</p>	<p>28.41 An entity shall disclose...</p> <p>(a) a general description of the type of plan, including funding policy;</p>	<p>ED 195 proposes that paragraphs 120–125 be replaced by paragraphs 125A–125K. In addition, under the proposals in ED 195, the disclosures would be applicable to defined benefit plans as well as what was previously described as ‘other long-term employee benefits’, such as obligations for long-service leave.</p> <p>Paragraph 125A(a) (and the first part of paragraph 125C(a) – see discussion below) corresponds to paragraph 28.41(a) of the <i>IFRS for SMEs</i>. It is proposed that the first part of paragraph 125C(a) be retained in Tier 2 (see discussion below). Accordingly, paragraph 125A(a) should be retained in Tier 2.</p> <p>[Paragraph 120A(b) of AASB 119, which requires an entity to provide similar types of information as paragraphs 125A(a) and 28.41, is retained in the RDR. Paragraph 120A(b) requires an entity to disclose a general description of the type of plan. See Section 4 of this Agenda paper.]</p> <p>Paragraphs 125A(b) and (c) have no equivalents in the <i>IFRS for SMEs</i>.</p>

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		<p>It is proposed that some of the proposals in paragraphs 125D-125H be retained in Tier 2 (see discussion below). Accordingly, paragraph 125A(b) should be retained in Tier 2.</p> <p>It is proposed that the proposals in paragraphs 125I-124K be excluded from Tier 2 (see discussion below). Accordingly, paragraph 125A(c) should be excluded from Tier 2.</p>
<p><u>125B An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity could disaggregate disclosure about plans showing one or more of the following features:</u></p> <p><u>(a) different geographical locations;</u></p> <p><u>(b) different characteristics such as flat salary pension plans, final salary pension plans, post-employment medical plans, long-service leave or long-term disability benefits;</u></p> <p><u>(c) different regulatory environments; or</u></p> <p><u>(d) different funding arrangements, ie wholly unfunded or wholly or partly funded.</u></p>	<p>28.41 An entity shall disclose the following information about defined benefit plans (except for any defined multi-employer benefit plans that are accounted for as a defined contribution plans in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead). If an entity has more than one defined benefit plan, these disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful...</p>	<p>Paragraph 125B corresponds to paragraph 28.41 of the <i>IFRS for SMEs</i>.</p> <p>Paragraph 125B facilitates an entity disclosing information about their defined benefit plans in a manner that the entity considers would be most useful for users of its financial statements. Paragraph 125B applies in conjunction with other disclosure requirements in AASB 119. As it is proposed that some of these other disclosure requirements be retained in Tier 2, it is proposed that paragraph 125B should be retained in Tier 2.</p> <p>[The requirements in paragraph 125B are consistent with the current requirements in paragraph 122 of AASB 119 (see Section 4 of this Agenda paper), which are applicable under the RDR.]</p> <p>Including paragraph 125B in the RDR would enable the second sentence in paragraph RDR120A.1 of AASB 119 to be deleted.</p>
<p><u>Characteristics of defined benefit plans</u></p> <p><u>125C An entity shall disclose:</u></p> <p><u>(a) information about the characteristics of its defined benefit plans, including:</u></p> <p><u>(i) the nature of the benefits provided by the plan (eg final salary defined benefit plan or contribution-based plan with guarantee).</u></p> <p><u>(ii) the effect of the regulatory framework in which the plan operates, for example the effect of any</u></p>	<p>28.41 An entity shall disclose...</p> <p>(a) a general description of the type of plan, including funding policy;</p>	<p>Paragraph 125C(a) corresponds to paragraph 28.41(a) of the <i>IFRS for SMEs</i> to the extent that, under either approach, an entity would provide general information about its defined benefit arrangements, such as name of the plan(s) and name of trustee(s). Accordingly, based on the reasoning in paragraph 2 (include IFRS disclosures when the same as the <i>IFRS for SMEs</i> equivalents) of the ‘Tier 2 Disclosure Principles’, paragraph 125C(a) up to and including the word ‘plans’ should be retained in Tier 2.</p>

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<p><u>minimum funding requirements.</u></p> <p>(iii) <u>a description of any other entity’s responsibilities for the governance of the plan, for example responsibilities of trustees.</u></p> <p>(iv) <u>any restrictions on the amount recognised as a net defined benefit asset in accordance with paragraph 115B. An entity shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or combination of both.</u></p> <p>(b) <u>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, eg property, the plan may expose the entity to a concentration of property market risk.</u></p> <p>(c) <u>a narrative description of any plan amendments, curtailments and non-routine settlements.</u></p>		<p>Sub-paragraphs 125C(a)(i)-(iv) and paragraphs 125C(b) and (c) do not have direct equivalents in the <i>IFRS for SMEs</i>. Based on the reasoning in paragraph 5 (cost-benefit) of the ‘Tier 2 Disclosure Principles’:</p> <p>(a) sub-paragraphs 125C(a)(i)-(iv) should be excluded from Tier 2 because they are unlikely to provide any additional information to users that is directly relevant to an understanding of the matters listed in paragraph 6(a)-(f) of the ‘Tier 2 Disclosure Principles’. However, compliance with these disclosure proposals would impose a cost on entities;</p> <p>(b) paragraph 125C(b) should be excluded from Tier 2 because: (i) the main risks to which defined benefit plans expose employer sponsors are asset/liability mismatches arising from the liquidity and market risks in relation to the plan assets; and (ii) it is proposed that paragraph 125F (which requires disclosures about a defined benefit plan’s assets) be largely retained in Tier 2 (see discussion below); and</p> <p>(c) paragraph 125C(c) should be excluded from Tier 2 because plan amendments, curtailments and non-routine settlements occur relatively infrequently in the Australian context, and when they do their impacts on defined benefit liabilities are generally not significant.</p>
<p><u>Explanation of amounts in the financial statements</u></p> <p><u>125D An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:</u></p> <p>(a) <u>the net defined benefit liability (asset), showing separate reconciliations for:</u></p> <p>(i) <u>plan assets.</u></p> <p>(ii) <u>the present value of the defined benefit obligation.</u></p> <p>(iii) <u>the effect of the limit in paragraph 115B.</u></p>	<p>28.41 An entity shall disclose the following information about defined benefit plans (except for any defined multi-employer benefit plans that are accounted for as a defined contribution plan in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead)...</p> <p>...</p> <p>(e) a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes.</p> <p>(f) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and</p>	<p>Paragraphs 125D and 125E correspond to paragraphs 28.41(e) and 28.41(f) of the <i>IFRS for SMEs</i>. However, paragraphs 125D and 125E require an entity to provide more detailed reconciliations.</p> <p>Based on the reasoning in paragraph 3 (the <i>IFRS for SMEs</i> requirements are less onerous) of the ‘Tier 2 Disclosure Principles’, the proposals in paragraph 125D should be retained in Tier 2, except for:</p> <p>(a) paragraph 125D(a)(iii) [Paragraph 115B (paragraph 58 of the current version of AASB 119) limits the amount</p>

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<p>(b) <u>any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.</u></p> <p>125E Each reconciliation listed in paragraph 125D shall show each of the following, if applicable:</p> <p>(a) <u>service cost, showing current and past service cost separately.</u></p> <p>(b) <u>interest income or expense (see paragraphs 119B and 119C).</u></p> <p>(c) <u>remeasurements of the net defined benefit liability (asset), showing separately:</u></p> <p>(i) <u>the return on plan assets, excluding amounts presented as interest income in (b).</u></p> <p>(ii) <u>actuarial gains and losses arising from changes in demographic assumptions, showing separately the effect of non-routine settlements.</u></p> <p>(iii) <u>actuarial gains and losses arising from changes in financial assumptions, showing separately the effect of non-routine settlements.</u></p> <p>(iv) <u>the effect of the limit in paragraph 115B, excluding amounts included in interest income or exposure.</u></p> <p>(d) <u>gains and losses arising from curtailments.</u></p> <p>(e) <u>foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency.</u></p> <p>(f) <u>contributions to the plan, showing separately those by the employer and by plan participants.</u></p> <p>(g) <u>payments from the plan, showing separately the effect of any non-routine settlements.</u></p> <p>(h) <u>the effects of business combinations and disposals.</u></p>	<p>closing balances of any reimbursement right recognised as an asset, showing separately, if applicable:</p> <p>(i) contributions;</p> <p>(ii) benefits paid; and</p> <p>(iii) other changes in plan assets.</p>	<p>of any a defined benefit asset (surplus) to the present value of any economic benefits available to the entity in the form of refunds or reductions in future contributions.]; and</p> <p>(b) the second sentence in paragraph 125D(b).</p> <p>Including paragraph 125D in Tier 2 would enable the first sentence in paragraph RDR120A.1 of AASB 119 RDR to be deleted.</p> <p>Based on the reasoning in paragraph 3 (the <i>IFRS for SMEs</i> requirements are less onerous) of the 'Tier 2 Disclosure Principles':</p> <p>(a) sub-paragraphs 125E(a)-(e) and (h) should be excluded from Tier 2;</p> <p>(b) sub-paragraph 125E(f) should be retained in Tier 2, but the text "showing separately those by the employer and by plan participants" should be excluded from Tier 2; and</p> <p>(c) sub-paragraph 125E(g) should be retained in Tier 2, but the text "showing separately the effect of any non-routine settlements" should be excluded from Tier 2.</p> <p>[Currently, entities applying the RDR are required to provide: (a) a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes [paragraph RDR120A.1]; and (b) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right showing separately, if applicable, the effects of contributions by the entity, member contributions and benefits paid [paragraph 120A(e). Entities currently applying the RDR are also required to provide a reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets to the assets and liabilities recognised in the statement of financial position [paragraph 120A(f)]. However, ED 195 proposes</p>

Text in AASB ED 195	Text in <i>IFRS for SMEs</i> Section 28	Comments
		that paragraph 120A(f) be removed because, under the proposals in the ED, all changes in defined benefit obligations and plan assets would be recognised immediately.]
<p><u>Other information about amounts recognised in the financial statements</u></p> <p><u>125F An entity shall disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets. At a minimum, an entity shall distinguish the following, subdividing each class of debt instruments and equity instruments into those that have a quoted market price in an active market and those that do not:</u></p> <p><u>(a) property.</u></p> <p><u>(b) government debt instruments.</u></p> <p><u>(c) other debt instruments.</u></p> <p><u>(d) the entity's own equity instruments.</u></p> <p><u>(e) other equity instruments.</u></p>	<p>28.41 An entity shall disclose the following information about defined benefit plans (except for any defined multi-employer benefit plans that are accounted for as a defined contribution plans in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead)....</p> <p>...</p> <p>(h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class constitutes of the fair value of the total plan assets at the reporting date.</p>	<p>Paragraph 125F corresponds to paragraph 28.41(h) of the <i>IFRS for SMEs</i> to the extent that, under both approaches, an entity would provide information in relation to the fair values of each class of asset comprising plan assets.</p> <p>However, the proposals in paragraph 125F are potentially more onerous than the requirements in paragraph 28.41 of the <i>IFRS for SMEs</i> because they would potentially require an entity to provide additional disaggregated information when:</p> <p>(a) assets within a class have different risk and liquidity characteristics; and/or</p> <p>(b) some assets within a class have a quoted market price in an active market and some assets do not.</p> <p>Based on the reasoning in paragraph 3 (the <i>IFRS for SMEs</i> requirements are less onerous) of the 'Tier 2 Disclosure Principles', the proposals in paragraph 125F should be retained in Tier 2 to the extent that they require an entity to disaggregate the fair value of plan assets into the classes identified in sub-paragraphs (a)-(e). To facilitate this, the text "classes that distinguish ... those that do not" should be excluded from Tier 2.</p> <p>[The requirements in paragraph 28.41(h) are consistent with the current requirements in paragraph 120A(i) of AASB 119, which are applicable under the RDR (see section 4 of this Agenda paper).]</p>
<p><u>125G An entity shall disclose:</u></p> <p><u>(a) quantitative information about actuarial assumptions used to determine the defined benefit obligation (see paragraph 73). Such disclosure shall be in absolute</u></p>	<p>28.41 An entity shall disclose the following information about defined benefit plans (except for any defined multi-employer benefit plans that are accounted for as a defined contribution plans in accordance with paragraph 28.11, for which the disclosures in paragraph 28.40 apply instead)....</p>	<p>Paragraph 125G corresponds to paragraph 28.41(h) of the <i>IFRS for SMEs</i> to the extent that, under both approaches, an entity would provide information in relation to the principal actuarial assumptions used. Based on the reasoning in paragraphs 6(c) and (d) of the 'Tier 2 Disclosure Principles',</p>

Text in AASB ED 195	Text in <i>IFRS for SMEs</i> Section 28	Comments
<p><u>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.</u></p> <p><u>(b) a brief description of the process used to determine demographic actuarial assumptions to supplement the disclosures provided in accordance with (a).</u></p>	<p>...</p> <p>(k) the principal actuarial assumptions used, including, when applicable:</p> <p>(i) the discount rates;</p> <p>(ii) the expected rates of return on any plan assets for the periods presented in the financial statements;</p> <p>(iii) the expected rates of salary increases;</p> <p>(iv) medical cost trend rates; and</p> <p>(v) any other material actuarial assumptions used.</p>	<p>the proposals in paragraph 125G(a) should be retained in Tier 2.</p> <p>Paragraph 125G(b) has no equivalent in the <i>IFRS for SMEs</i>. Based on the reasoning in paragraph 3 (the <i>IFRS for SMEs</i> requirements are less onerous) of the ‘Tier 2 Disclosure Principles’, paragraph 125G(b) should be excluded from Tier 2.</p>
<p><u>125H An entity shall disclose the present value of the defined benefit obligation, adjusted to exclude the effect of projected growth in salaries.</u></p>		<p>Paragraph 125H has no equivalent in the <i>IFRS for SMEs</i>. However, as noted above, the <i>IFRS for SMEs</i> permits an entity to measure its defined benefit obligations on the basis described in paragraph 125H if the PUCM cannot be applied without undue cost or effort.</p> <p>Based on the reasoning in paragraph 5 (cost-benefit) of the ‘Tier 2 Disclosure Principles’, paragraph 125H should be excluded from Tier 2 because:</p> <p>(a) it is inconsistent with the measurement approach under AASB 119, which presumes that employers will honour their defined benefit obligations; and</p> <p>(b) users are unlikely to consider this information useful in the context of the measurement approach in AASB 119.</p>
<p><u>Amount, timing and uncertainty of future cash flows</u></p> <p><u>125I An entity shall disclose:</u></p> <p><u>(a) how the effect of a change to each significant actuarial assumption that:</u></p> <p><u>(i) is reasonably possible at the end of the reporting period would have affected the defined benefit obligation at the end of the reporting period; and</u></p> <p><u>(ii) was reasonably possible at the beginning of the reporting period would have affected current service cost that was determined for the reporting period.</u></p>		<p>Paragraph 125I has no equivalent in the <i>IFRS for SMEs</i>.</p> <p>Paragraphs 40 and 41 of AASB 7 <i>Financial Instruments: Disclosures</i> require an entity to disclose a sensitivity analysis for each type of market risk to which it is exposed and additional information explaining the sensitivity analysis. Paragraphs 40 and 41 of AASB 7 are excluded from Tier 2. Consistent with the approach adopted in AASB 7, paragraph 125I should be excluded from Tier 2.</p> <p>[While the current version of AASB 119 includes requirements for an entity to disclose sensitivity information</p>

Text in AASB ED 195	Text in <i>IFRS for SMEs</i> Section 28	Comments
<p>(b) <u>the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.</u></p> <p>(c) <u>changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.</u></p>		<p>in relation to medical costs [paragraph 120A(o)], these requirements are currently excluded from Tier 2.]</p>
<p><u>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.</u></p>		<p>Paragraph 125J has no equivalent in the <i>IFRS for SMEs</i>.</p> <p>Based on the reasoning in paragraph 5 (cost-benefit) of the ‘Tier 2 Disclosure Principles’, paragraph 125I should be excluded from Tier 2 because it is unlikely to provide any additional information to users that is directly relevant to an understanding of the matters listed in paragraph 6(a)-(f) of the ‘Tier 2 Disclosure Principles’.</p> <p>Most defined benefit plans of Australian are not exposed to significant longevity risk because they pay lump-sum retirement benefits (rather than annuities). Accordingly, few, if any, defined benefit plans have in place the types of asset-liability matching strategies anticipated by paragraph 125J.</p>
<p><u>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.</u></p>		<p>Paragraph 125K has no equivalent in the <i>IFRS for SMEs</i>.</p> <p>Based on the reasoning in paragraph 5 (cost-benefit) of the ‘Tier 2 Disclosure Principles’, paragraph 125K should be excluded from Tier 2 because:</p> <p>(a) the proposed five year time frame for expected contributions is not consistent with the three year (or more frequent) timeframe adopted for actuarial reviews in Australia. Accordingly, compliance with paragraph 33A(f)(iii) would impose a cost on entities; and</p> <p>(b) in the Australian context, there is often no relationship between the level of contributions and service cost. Accordingly, paragraph 125K is unlikely to provide useful information to users of financial statements of</p>

Text in AASB ED 195	Text in <i>IFRS for SMEs</i> Section 28	Comments
		Tier 2 entities. [The current version of AASB 119 requires an entity to disclose its best estimate of contributions payable for the next reporting period [paragraph 120A(o)]. However, these disclosure requirements are excluded from Tier 2.]

3. AASB ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*: Text of Proposed Disclosure Requirements and Consequential Amendments for the Reduced Disclosure Regime Requirements

Except for the marked-up text in paragraphs Aus1.7, RDR120A.1 and RDR120A.2, the marked-up text below shows the proposed amendments to AASB 119 *Employee Benefits* by AASB ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*. The requirements from which it is proposed entities applying the RDR should be exempt is shown as shaded text.

Reduced Disclosure Requirements

Aus1.7 The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:

- (a) paragraphs 33A(c), notwithstanding that paragraph 36 of this Standard requires an entity that participates in a state plan to disclose the information required by paragraph 33A;
- (b) paragraphs 33A(f)(iii), 30(e)(ii), 34B, 47, 125A(c), 125C(b), 125C(c), 125D(a)(iii), 125E(a), 125E(b), 125E(c), 125E(d), 125E(e), 125E(h), 125G(b), 125H, 125I, 125J, 125K120, 120A(e), 120A(d), 120A(e)(i)-(iii), 120A(e)(vii), 120A(e)(viii), 120A(l), 120A(n)(iii), 120A(o)-(q), 124(b) and 143;
- (c) the third sentence in paragraph 23;
- (d) in paragraph 33A(f)(iv), the text “, including the basis ... for the entity”;
- (e) in paragraph 125C(a), the text “, including:” and subparagraphs (i)-(iv);
- (f) the second sentence in paragraph 125D(b)in paragraph 120A(g), the text “for each of ... in paragraph 58(b)”;
- (g) in paragraph 125E(f)120A(m), the text “, showing separately those by the employer and by plan participants”as well as ... paragraph 104A”
- (h) in paragraph 125E(g), the text “, showing separately the effect of any non-routine settlements”;
- (i) in paragraph 125F, the text “classes that distinguish ... and those that do not”; and
- (j) the second sentence in paragraph 131.

Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.

...

Short-term Employee Benefits

...

Disclosure

- 23 Although this Standard does not require specific disclosures about short-term employee benefits, other Australian Accounting Standards may require disclosures. For example, AASB 124 requires disclosure about employee benefits for key management personnel. AASB 101 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

Multi-employer Plans

- 29 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). ~~Where a multi-employer plan is a defined benefit plan, an entity shall:~~

29A If an entity participates in a defined benefit multi-employer plan, it shall

- (a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan, ~~unless paragraph 30 applies;~~ and
- (b) ~~disclose the information required by paragraph 120A.~~
- 30 When sufficient information is not available to use defined benefit accounting for a defined benefit multi-employer plan that is a defined benefit plan, an entity shall:
- (a) ~~account for the plan in accordance with under paragraphs 44–46 as if it were a defined contribution plan;~~
- (b) ~~disclose:~~
- (i) ~~the fact that the plan is a defined benefit plan; and~~
- (ii) ~~the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and~~
- (c) ~~to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:~~
- (i) ~~any available information about that surplus or deficit;~~
- (ii) ~~the basis used to determine that surplus or deficit; and~~
- (iii) ~~the implications, if any, for the entity.~~

...

- 32 ~~When~~ Where sufficient information is available about a defined benefit multi-employer plan which is a defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and ~~post-employment long-term employee benefit cost~~ associated with the plan in the same way as for any other defined benefit plan. However, in some cases, an entity may not be able to identify its share of the

underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

- ~~(a) the entity does not have access to information about the plan that satisfies the requirements of this Standard; or~~
- ~~(ba) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan; or-~~
- (b) the entity does not have access to information about the plan that satisfies the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the additional information required by paragraph 33A(f)~~30~~.

Disclosure

33A If an entity participates in a defined benefit multi-employer plan, it shall disclose:

- (a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.
- (b) the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multiemployer plan.
- (c) the total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if that information is available.
- (d) details of any agreed deficit or surplus allocation on wind-up of the plan, or the amount that is required to be paid on withdrawal of the entity from the plan.
- (e) if the entity accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in accordance with paragraph 29A, all the information required by paragraphs 125A–125K for that proportionate share.
- (f) if the entity accounts for the plan as if it were a defined contribution plan in accordance with paragraph 30:
 - (i) the fact that the plan is a defined benefit plan.
 - (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.
 - (iii) the expected contributions to the plan for the next five annual reporting periods, and a description of the contractual agreement or other basis used to determine the expected contributions.
 - (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.

Defined benefit plans that share risks between various entities under common control

- 34 Defined benefit plans that share risks between various entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.
- 34A An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with AASB 119 on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with AASB 119 to individual group entities, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.
- 34B Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:
- (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;
 - (b) the policy for determining the contribution to be paid by the entity;
 - (c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, all the information about the plan as a whole ~~in accordance with~~ required by paragraphs ~~125A-125K~~120-121; and
 - (d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole required ~~in accordance with~~ by paragraphs ~~125A-125C, 125F, 125G and 125K~~120A(b)-(e), (j), (n), (o), (q) and 121. ~~The other disclosures required by paragraph 120A do not apply.~~

...

State Plans

- 36 An entity shall account for a state plan in the same way as for a multiemployer plan (see paragraphs ~~29 and 30~~) and disclose the information required by paragraph 33A.
- 37 State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the entity. Some plans established by an entity provide both compulsory benefits which substitute for benefits that would otherwise be covered under a state plan and additional voluntary benefits. Such plans are not state plans.

- 38 State plans are characterised as defined benefit or defined contribution in nature based on the entity's obligation under the plan. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans, the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, in the rare cases when a state plan is a defined benefit plan, an entity applies the treatment prescribed in paragraphs 29 ~~and 30~~ and discloses the information required by paragraph 33A.

...

Post-employment Benefits: Defined Contribution Plans

...

Disclosure

- 46 An entity shall disclose the amount recognised as an expense for defined contribution plans.
- 47 Where required by AASB 124 an entity discloses information about contributions to defined contribution plans for key management personnel.

...

~~Recognition and m~~Measurement: plan assets

Reimbursements

...

- 104C When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 104A deals with such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the deficit or surplus. ~~defined benefit liability recognised under paragraph 54: in all other respects, the entity treats the asset in the same way as plan assets. In particular, the defined benefit liability recognised under paragraph 54 is increased (reduced) to the extent that net cumulative actuarial gains (losses) on the defined benefit obligation and on the related reimbursement right remain unrecognised under paragraphs 92 and 93. Paragraph 125D(b) 120A(f)(iv) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.~~

Disclosure

125A An entity shall disclose information that:

- (a) explains the characteristics of its defined benefit plans (see paragraph 125C);
- (b) identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 125D–125H); and
- (c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 125I–125K).

125B An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity could disaggregate disclosure about plans showing one or more of the following features:

- (a) different geographical locations;
- (b) different characteristics such as flat salary pension plans, final salary pension plans, post-employment medical plans, long-service leave or long-term disability benefits;
- (c) different regulatory environments; or
- (d) different funding arrangements, ie wholly unfunded or wholly or partly funded.

Characteristics of defined benefit plans

125C An entity shall disclose:

- (a) information about the characteristics of its defined benefit plans, including:
 - (i) the nature of the benefits provided by the plan (eg final salary defined benefit plan or contribution-based plan with guarantee).
 - (ii) the effect of the regulatory framework in which the plan operates, for example the effect of any minimum funding requirements.
 - (iii) a description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees.
 - (iv) any restrictions on the amount recognised as a net defined benefit asset in accordance with paragraph 115B. An entity shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or combination of both.
- (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, eg property, the plan may expose the entity to a concentration of property market risk.
- (c) a narrative description of any plan amendments, curtailments and non-routine settlements.

Explanation of amounts in the financial statements

125D An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

- (a) the net defined benefit liability (asset), showing separate reconciliations for:
 - (i) plan assets.
 - (ii) the present value of the defined benefit obligation.
 - (iii) the effect of the limit in paragraph 115B.
- (b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

125E Each reconciliation listed in paragraph 125D shall show each of the following, if applicable:

- (a) service cost, showing current and past service cost separately.
- (b) interest income or expense (see paragraphs 119B and 119C).
- (c) remeasurements of the net defined benefit liability (asset), showing separately:
 - (i) the return on plan assets, excluding amounts presented as interest income in (b).
 - (ii) actuarial gains and losses arising from changes in demographic assumptions, showing separately the effect of non-routine settlements.
 - (iii) actuarial gains and losses arising from changes in financial assumptions, showing separately the effect of non-routine settlements.
 - (iv) the effect of the limit in paragraph 115B, excluding amounts included in interest income or exposure.
- (d) gains and losses arising from curtailments.
- (e) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency.
- (f) contributions to the plan, showing separately those by the employer and by plan participants.
- (g) payments from the plan, showing separately the effect of any non-routine settlements.
- (h) the effects of business combinations and disposals.

Other information about amounts recognised in the financial statements

125F An entity shall disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets. At a minimum, an entity shall distinguish the following, subdividing each class of debt instruments and equity instruments into those that have a quoted market price in an active market and those that do not:

- (a) property.
- (b) government debt instruments.

- (c) other debt instruments.
- (d) the entity's own equity instruments.
- (e) other equity instruments.

125G An entity shall disclose:

- (a) quantitative information about actuarial assumptions used to determine the defined benefit obligation (see paragraph 73). 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.
- (b) a brief description of the process used to determine demographic actuarial assumptions to supplement the disclosures provided in accordance with (a).

125H An entity shall disclose the present value of the defined benefit obligation, adjusted to exclude the effect of projected growth in salaries.

Amount, timing and uncertainty of future cash flows

125I An entity shall disclose:

- (a) how the effect of a change to each significant actuarial assumption that:
 - (i) is reasonably possible at the end of the reporting period would have affected the defined benefit obligation at the end of the reporting period; and
 - (ii) was reasonably possible at the beginning of the reporting period would have affected current service cost that was determined for the reporting period.
- (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.

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.

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.

~~RDR120A.1 An entity applying Australian Accounting Standards—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.~~

~~RDR125K.10A.2~~ An entity applying Australian Accounting Standards – Reduced Disclosure Requirements is not required to disclose the reconciliations specified in paragraphs ~~125D and 125E0A(e) and RDR120A.1~~ for prior periods.

Other Long-term Employee Benefits

...

Disclosure

131 Although this Standard does not require specific disclosures about other long-term employee benefits, other Australian Accounting Standards may require disclosures, for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with AASB 101. When required by AASB 124 an entity discloses information about other long-term employee benefits for key management personnel.

...

Termination Benefits

...

Disclosure

141 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by AASB 137 an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

142 As required by AASB 101, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

143 Where required by AASB 124 an entity discloses information about termination benefits for key management personnel.

4. AASB 119 *Employee Benefits*: Text of Current Reduced Disclosure Regime Requirements

Disclosure

- 23 Although this Standard does not require specific disclosures about short-term employee benefits, other Australian Accounting Standards may require disclosures. For example, AASB 124 requires disclosure about employee benefits for key management personnel. AASB 101 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

...

Multi-employer Plans

- 29 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:
- (a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and
 - (b) disclose the information required by paragraph 120A.
- 30 When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:
- (a) account for the plan in accordance with under paragraphs 44–46 as if it were a defined contribution plan;
 - (b) disclose:
 - (i) the fact that the plan is a defined benefit plan; and
 - (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and
 - (c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:
 - (i) any available information about that surplus or deficit;
 - (ii) the basis used to determine that surplus or deficit; and
 - (iii) the implications, if any, for the entity.

...

- 34B Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:
- (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy;

- (b) the policy for determining the contribution to be paid by the entity;
- (c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, all the information about the plan as a whole in accordance with paragraphs 120-121; and
- (d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole required in accordance with paragraphs 120A(b)-(e), (j), (n), (o), (q) and 121. The other disclosures required by paragraph 120A do not apply.

...

Post-employment Benefits: Defined Contribution Plans

...

Disclosure

- 46 An entity shall disclose the amount recognised as an expense for defined contribution plans.
- 47 Where required by AASB 124 an entity discloses information about contributions to defined contribution plans for key management personnel.

...

Disclosure

- 120 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.
- 120A An entity shall disclose the following information about defined benefit plans:
 - (a) the entity's accounting policy for recognising actuarial gains and losses;
 - (b) a general description of the type of plan;
 - (c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:
 - (i) current service cost;
 - (ii) interest cost;
 - (iii) contributions by plan participants;
 - (iv) actuarial gains and losses;
 - (v) foreign currency exchange rate changes in plans measured in a currency different from the entity's presentation currency;
 - (vi) benefits paid;
 - (vii) past service cost;

- (viii) business combinations;
 - (ix) curtailments; and
 - (x) settlements;
- (d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded;
- (e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 104A showing separately, if applicable, the effects during the period attributable to each of the following:
- (i) expected return on plan assets;
 - (ii) actuarial gains and losses;
 - (iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency;
 - (iv) contributions by the employer;
 - (v) contributions by plan participants;
 - (vi) benefits paid;
 - (vii) business combinations; and
 - (viii) settlements;
- (f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the statement of financial position, showing at least:
- (i) the net actuarial gains or losses not recognised in the statement of financial position (see paragraph 92);
 - (ii) the past service cost not recognised in the statement of financial position (see paragraph 96);
 - (iii) any amount not recognised as an asset, because of the limit in paragraph 58(b);
 - (iv) the fair value at the end of the reporting period of any reimbursement right recognised as an asset in accordance with paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and
 - (v) the other amounts recognised in the statement of financial position;
- (g) the total expense recognised in profit or loss for each of the following, and the line item(s) in which they are included:
- (i) current service cost;
 - (ii) interest cost;
 - (iii) expected return on plan assets;
 - (iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph 104A;

- (v) actuarial gains and losses;
 - (vi) past service cost;
 - (vii) the effect of any curtailment or settlement; and
 - (viii) the effect of the limit in paragraph 58(b);
- (h) the total amount recognised in other comprehensive income for each of the following:
- (i) actuarial gains and losses; and
 - (ii) the effect of the limit in paragraph 58(b);
- (i) for entities that recognise actuarial gains and losses in other comprehensive income in accordance with paragraph 93A, the cumulative amount of actuarial gains and losses recognised in other comprehensive income;
- (j) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets;
- (k) the amounts included in the fair value of plan assets for:
- (i) each category of the entity's own financial instruments; and
 - (ii) any property occupied by, or other assets used by, the entity;
- (l) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets;
- (m) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 104A;
- (n) the principal actuarial assumptions used as at the end of the reporting period, including, when applicable:
- (i) the discount rates;
 - (ii) the expected rates of return on any plan assets for the periods presented in the financial statements;
 - (iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 104A;
 - (iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
 - (v) medical cost trend rates; and
 - (vi) any other material actuarial assumptions used.
- An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables;
- (o) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:

(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and

(ii) the accumulated post-employment benefit obligation for medical costs.

For the purpose of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment;

(p) the amounts for the current annual reporting period and previous four annual reporting periods of:

(i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and

(ii) the experience adjustments arising on:

(A) the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the end of the reporting period; and

(B) the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the end of the reporting period;

(q) the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual reporting period beginning after the end of the reporting period.

RDR120A.1 An entity applying Australian Accounting Standards – 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.

RDR120A.2 An entity applying Australian Accounting Standards – Reduced Disclosure Requirements is not required to disclose the reconciliations specified in paragraphs 120A(e) and RDR120A.1 for prior periods.

121 Paragraph 120A(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan shall include informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance with paragraph 52. Further detail is not required.

122 When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

(a) the geographical location of the plans, for example, by distinguishing domestic plans from foreign plans; or

(b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans. When an entity provides disclosures in total for a

grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

- 123 Paragraph 30 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.
- 124 Where required by AASB 124 an entity discloses information about:
- (a) related party transactions with post-employment benefit plans; and
 - (b) post-employment benefits for key management personnel.
- 125 Where required by AASB 137 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other Long-term Employee Benefits

...

Disclosure

- 131 Although this Standard does not require specific disclosures about other long-term employee benefits, other Australian Accounting Standards may require disclosures, for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with AASB 101. When required by AASB 124 an entity discloses information about other long-term employee benefits for key management personnel.

Termination Benefits

...

Disclosure

- 141 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by AASB 137 an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.
- 142 As required by AASB 101, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.
- 143 Where required by AASB 124 an entity discloses information about termination benefits for key management personnel.

5. Reduced Disclosure Regime: Tier 2 Disclosure Principles

The following principles are applied in determining disclosures under Tier 2:

1. The disclosures proposed under Tier 2 are determined by:
 - (a) drawing directly on the *IFRS for SMEs* when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and
 - (b) using the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

This is further explained below.

Approach when recognition and measurement requirements are the same

2. Where the disclosure requirements under a full IFRS as adopted in Australia and the *IFRS for SMEs* are the same or similar (that is, result in the same disclosures), those disclosure requirements are retained as part of Tier 2 requirements, using the wording of the relevant full IFRS as adopted in Australia.
3. Where the *IFRS for SMEs* does not require a disclosure that is required in the relevant full IFRS, Tier 2 does not retain that disclosure. Furthermore, where the *IFRS for SMEs* is less onerous than the relevant full IFRS, the less onerous disclosure is adopted. This is on the basis that, in developing the *IFRS for SMEs*, the IASB has already applied the user needs and cost benefit considerations and concluded that an exemption or reduced disclosure is appropriate. Although the *IFRS for SMEs* has been developed to apply to for-profit private sector entities, broadly it is considered reasonable to rely on the judgements made in developing the *IFRS for SMEs* in respect of both for-profit and not-for-profit (including public sector) entities in Australia given that IFRSs are generally applied to all types of Australian entities. The AASB uses its *Process for Modifying IFRSs for PBE/NFP* in assessing the need for specific requirements relating to not-for-profit entities. In most cases, the structure of the words in the relevant full IFRS enables the use of shading to show that a relevant disclosure is excluded or reduced so as to match the *IFRS for SMEs* disclosure outcome. In the few cases where this is not feasible, the wording in the *IFRS for SMEs* is used as an RDR paragraph.
4. In the few cases where the *IFRS for SMEs* has an additional disclosure requirement that is not included in the full IFRS, that disclosure is not included in Tier 2.

Approach when recognition and measurement requirements are not the same

5. The disclosures under Tier 2 are determined by drawing on the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those under the *IFRS for SMEs*.
6. The principles applied by the IASB in developing its *IFRS for SMEs* are grounded in the view that users of financial information of non-publicly accountable for-profit entities are particularly interested in knowing about:

- (a) short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;
- (b) liquidity and solvency;
- (c) measurement uncertainties;
- (d) the entity's accounting policy choices;
- (e) disaggregations of amounts presented in the financial statements; and
- (f) transactions and other events and conditions encountered by such entities.

Guidance

7. Guidance relating to a disclosure that is retained in Tier 2 is also retained in Tier 2 on the grounds that it assists entities in making that disclosure and would not add to the disclosure burden. Guidance that relates to a disclosure that is not retained in the Tier 2 is also not retained in Tier 2. Text in the nature of contextual material is not treated as guidance. Such text is retained in Tier 2 on the basis that its retention does not add to the disclosure burden.

Disclosure Encouraged

8. Where a disclosure is encouraged, whether under the full IFRSs as adopted in Australia or the *IFRS for SMEs*, it is not included.

Presentation vs Disclosure

9. Tier 2 does not involve amending the presentation (sometimes used interchangeably with classification) requirements of Tier 1 and is concerned with reducing the disclosure burden. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure. The following criteria are used to distinguish between presentation and disclosure:

‘Presentation requirements are limited to requirements that specify the broad structure of financial statements including the basis of classification of items. Specifications relating to subclassifications or line items to be shown on the face of financial statements, or in the notes, are treated as matters of disclosure.’

Clarification in relation to not-for-profit and public sector entities

10. Paragraphs 3 and 6 are relevant to all types of entities, since the same transactions are generally accounted for in the same manner for all types of entities under the AASB's policy of transaction neutrality. However, there are a limited number of disclosure requirements in full IFRSs as adopted in Australia specific to the circumstances of not-for-profit and public sector entities. In relation to these disclosures, Tier 2 disclosures are determined by drawing on the principles applied by the IASB in developing its *IFRS for SMEs* in the context of the specific needs of users of not-for-profit and public sector entity financial statements:

- (a) drawing directly on the *IFRS for SMEs* when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and

- (b) using the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.