AASB Exposure Draft

Tier 2 Supplement to ED 195
February 2011

Defined Benefit Plans

(proposed amendments to AASB 119)

Comments to AASB by 9 May 2011

Australian Government

Australian Accounting Standards Board

Invitation to Comment

Comments on this Tier 2 Supplement to AASB Exposure Draft ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)* are requested by 9 May 2011. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West   Victoria   8007
AUSTRALIA
E-mail: standard@aasb.gov.au

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

Obtaining a Copy of this Tier 2 Supplement to AASB Exposure Draft

This Tier 2 Supplement to ED 195 is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Supplement are available by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne   Victoria
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aasb.gov.au
Postal address:
PO Box 204
Collins Street West   Victoria   8007

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aasb.gov.au

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Background

In April 2010, the IASB published ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19*. ED/2010/3 contains proposals for targeted improvements in accounting for employee benefit promises. The proposals were developed on the basis of responses the IASB received from constituents on its Discussion Paper *Preliminary Views on Amendments to IAS 19*, which was published in March 2008.

Consistent with its policy of adopting International Financial Reporting Standards (IFRS), in May 2010 the AASB published ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*, which incorporates ED/2010/3. The AASB's response to ED/2010/3 is available on the AASB website (www.aasb.gov.au) under Work in Progress/Submissions from AASB.

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR).

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

This Exposure Draft sets out the disclosures proposed in ED 195 from which it is proposed entities applying Tier 2 disclosure requirements should be exempt. This Exposure Draft also includes the disclosure requirements in AASB 119 *Employee Benefits* that would not be substantially changed under the proposals in ED 195 and are currently excluded from the Tier 2 disclosure requirements. The proposals in this Exposure Draft should not be seen as any indication of AASB support or otherwise for the IASB's proposed disclosures in ED/2010/3. That will be determined through the ED 195 due process.

AASB Specific Matters for Comment

Comment is requested on the proposed disclosure requirements in paragraphs 33A and 125A-125K of ED 195 in relation to Tier 2 entities. The full text of these proposed disclosure requirements, with shading to identify the proposed exemptions for Tier 2 entities, where relevant, is provided in the 'Proposed Reduced Disclosure Requirements' section below.

This Exposure Draft does not seek comment on the disclosure requirements in AASB 119 that would not be substantially changed under the proposals in ED 195 and are currently excluded from the Tier 2 disclosure requirements (such as paragraphs 23, 34B, 47 and 143 of AASB 119). These requirements are subject to the AASB's previous decisions on Tier 2 disclosure requirements (issued in June 2010).

The AASB's conclusions in relation to current and proposed Tier 2 disclosure requirements in relation to AASB 119 have been reached after applying its usual approach to the analysis of the disclosures – comparison with disclosures set out in the IASB's *IFRS for SMEs* and application of the 'Tier 2 Disclosure Principles'. The 'Analysis of Disclosure Requirements' (current and proposed) in relation to AASB 119 and an explanation of 'Tier 2 Disclosure Principles' are available on the AASB website under Work in Progress/Reduced Disclosure Requirements.

A summary of the main differences between ED 195 and Section 28 *Employee Benefits* of the *IFRS for SMEs* in terms of the recognition, measurement and presentation requirements are discussed in Appendix A to this Exposure Draft.

The AASB would particularly value comments on the following:

1. whether you agree with the AASB disclosure proposals in paragraphs 33A and 125A-125K of ED 195 in relation to Tier 2 entities as set out in the Analysis of Proposed Disclosures section below;

2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of these proposals, particularly any issues relating to:

    (a) not-for-profit entities; and

    (b) public sector entities;

3. whether, overall, these proposals would result in financial statements that would be useful to users;

4. whether these proposals are in the best interests of the Australian economy; and

5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

ANALYSIS OF PROPOSED DISCLOSURES

The purpose of this Tier 2 Supplement to ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)* is to seek comment on the disclosure requirements that should apply to Tier 2 entities in respect of the issues covered in ED 195.

Current and Proposed Tier 2 Disclosure Requirements

Under the proposals in this Exposure Draft, Tier 2 entities would be exempt from the following disclosure requirements in AASB 119 *Employee Benefits*, as amended for the relevant proposals in ED 195:

(a) paragraphs 33A(c), 33A(f)(iii), 34B, 47, 125A(c), 125C(a)(i)-125C(a)(iv), 125C(c), 125E(a)-125E(e), 125E(h), 125G(b), 125H-125K and 143;

(b) second sentence in paragraph 125D(b);

(c) second part of paragraph 125E(f);

(d) second part of paragraph 125E(g);

(e) second sentence of paragraph 125F, including sub-paragraphs 125F(a)-125F(e);

(f) second and third sentences of paragraph 125G(a); and

(g) the last sentence in paragraph 23.

The full text of all of the disclosure requirements in AASB 119, as amended for the proposals in ED 195 and with, where relevant, shading to identify the proposed exemptions for Tier 2 entities, is provided below.

Proposed Reduced Disclosure Requirements

The following provides all of the disclosure requirements in AASB 119 *Employee Benefits*, as amended for the relevant proposals in ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)* (May 2010), showing, where relevant, the disclosure requirements and proposals from which it is proposed entities applying Tier 2 disclosure requirements should be exempt as shaded text.

Appendix B to this Exposure Draft shows how the changes proposed in ED 195 would amend the current disclosure requirements in AASB 119.

AASB 119 *Employee Benefits*

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).

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

30 When sufficient information is not available to use defined benefit accounting for a defined benefit multi-employer plan, an entity shall account for the plan in accordance with paragraphs 44-46 as if it were a defined contribution plan.

…

32 When sufficient information is available about a defined benefit multi-employer plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and 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 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).

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 multi-employer 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; and

(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[Ψ] for that proportionate share; or

(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; and

(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

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; Multi-employer Plans;

(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 required by paragraphs 125A-125K; 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 by paragraphs 125A-125C, 125F, 125G and 125K.

…

State Plans

36 An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 29-30) and disclose the information required by paragraph 33A.

…

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 29-30 and discloses the information required by paragraph 33A. Ψ

Insured Benefits

39 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation to either:

(a) pay the employee benefits directly when they fall due; or

(b) pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

…

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.

…

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. Paragraph 125D(b) Ψ 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, i.e. 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 (e.g. 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; and

(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, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a 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, e.g. property, the plan may expose the entity to a concentration of property market risk; and

(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; and

(iii) the effect of the limit in paragraph 115B; and

(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; and

(iv) the effect of the limit in paragraph 115B, excluding amounts included in interest income or expense;

(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; and

(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; and

(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 (e.g. 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; and

(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; and

(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.

RDR125K.1 An entity applying Australian Accounting Standards – Reduced Disclosure Requirements is not required to disclose the reconciliations specified in paragraphs 125D and 125E for prior periods.

…

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.

Appendix A - Differences between ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)* and Section 28 *Employee Benefits* of the *IFRS for SMEs*

ED 195 deals with the accounting for defined benefit plans and other long-term employee benefits. Section 28 of the *IFRS for SMEs* deals with the accounting for employee benefits.

The disclosures proposed in ED 195 and the disclosure requirements in Section 28 of the *IFRS for SMEs* have been compared in the Analysis of Disclosure Requirements Relating to Tier 2 Supplement to AASB Exposure Draft ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*, which is available on the AASB website under Work in Progress/Reduced Disclosure Requirements.

The main differences between ED 195 and Section 28 in terms of the recognition, measurement and presentation requirements are discussed below.

Main Differences in Definitions

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 employee~~s~~ 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.

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.

These proposed changes to the definitions of ‘short-term employee benefits’, ‘post-employment benefits’ and ‘defined benefit plans’ 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'.

The *IFRS for SMEs* uses 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 Recognition and Presentation Requirements

Some of the proposed changes in ED 195 would, if adopted, more closely align the recognition requirements for defined benefit plans in AASB 119 *Employee Benefits* 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.

However, some of the proposed changes in ED 195 would, if adopted, also create further recognition and presentation 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) actuarial gains and losses to be recognised in other comprehensive income (OCI). The *IFRS for SMEs* permits an entity to recognise all actuarial gains and losses in profit or loss or all in OCI;

(b) 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; and

(c) defined benefit cost to be disaggregated and classified 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.

Accordingly, the recognition and presentation requirements under an amended AASB 119 would differ from the corresponding requirements under Section 28 of the *IFRS for SMEs*.

Main Differences in Measurement Requirements

ED 195 proposes some changes to the basis on which interest expense on a defined benefit plan is calculated. However, the measurement requirements under an amended AASB 119 would continue to differ from the corresponding requirements under Section 28 of the *IFRS for SMEs*.

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 in a similar manner, 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 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.

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 under the *IFRS for SMEs* 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.

As a consequence of the potential differences in the measurement of defined benefit obligations under AASB 119 and the *IFRS for SMEs*, the *IFRS for SMEs* includes some disclosures not required under AASB 119, such as paragraphs 28.41(c) and 28.41(d).

Appendix B - Proposed Amendments to AASB 119 *Employee Benefits* Arising From the Proposals in ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)*

The changes proposed in ED 195 to the disclosure requirements in AASB 119 are shown below as underlined text. Amendments to AASB 119 to facilitate Tier 2 disclosure requirements being incorporated into AASB 119 (such as RDR footnotes and amendments to RDR paragraphs) are also shown as marked-up text.

Several of the disclosure requirements in AASB 119 that are currently excluded from the Tier 2 disclosure requirements would be deleted from AASB 119 under the proposals in ED 195, such as paragraphs 120 and 120A(c). These requirements are shown below as struck through text. However, for the purpose of comparison, the shading has, where relevant, been retained.

AASB 119 *Employee Benefits*

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~~

(a~~b~~) 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 multi-employer 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; and

(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[Ψ] for that proportionate share; or

(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; and

(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.

<u>Defined Benefit Plans that Share Risks between Various Entities under Common Control</u>

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; Multi-employer Plans;

(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~~ <u>required by</u> paragraphs <u>125A-125K</u>~~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~~ <u>by</u> paragraphs <u>125A-125C, 125F, 125G and 125K.</u>~~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 multi-employer plan (see paragraphs 29~~ and~~<u>-</u>30)<u> and disclose the information required by paragraph 33A</u>.

…

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~~<u>-</u>30<u> and discloses the information required by paragraph 33A</u>.

Insured Benefits

39 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation to either:

(a) pay the employee benefits directly when they fall due; or

(b) pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

…

Post-employment Benefits: Defined Contribution Plans

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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.

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Measurement: Plan Assets

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Reimbursements

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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 that 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[ψ]); 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, i.e. 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 (e.g. 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; and

(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, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a 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, e.g. property, the plan may expose the entity to a concentration of property market risk; and

(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; and

(iii) the effect of the limit in paragraph 115B; and

(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; and

(iv) the effect of the limit in paragraph 115B, excluding amounts included in interest income or expense;

(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; and

(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; and

(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 (e.g. 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; and

(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; and

(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.

~~**120 An entity shall disclose information that enables users of financial reports 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 reporting date 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 reporting date, including, when applicable:~~

~~(i) the discount rates;~~

~~(ii) the expected rates of return on any plan assets for the periods presented in the financial report;~~

~~(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.**~~

RDR120K~~A~~.1~~2~~ An entity applying Australian Accounting Standards – Reduced Disclosure Requirements is not required to disclose the reconciliations specified in paragraphs 125D~~120A(e)~~ and 125E~~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.~~

~~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

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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.