ASSOCIATION OF CONSULTING ACTUARIES

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12 January 2022

Dr Andreas Barckow
IASB Chair
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Dear Dr Barckow

IASB EXPOSURE DRAFT ED/2021/3 DISCLOSURE REQUIREMENTS IN IFRS STANDARDS – A PILOT APPROACH (PROPOSED AMENDMENTS TO IAS 19)

I am contacting you on behalf of the Accounting Committee of the Association of Consulting Actuaries Limited (ACA) in response to the above exposure draft dated March 2021.

We welcome the opportunity to respond to the IASB's exposure draft on proposed amendments to IFRS disclosure requirements, under its pilot approach. Our consideration of the exposure draft mainly focussed on the IAS 19 disclosure requirements because this is the main area of IFRS reporting with which we are involved. The ACA's membership has considerable experience of advising entities on the scope and content of their IAS 19 disclosures, and the auditing of those disclosures. The ACA's members have significant expertise in the assessments, management and communication of financial risks more generally.

We support the IASB's development of objectives-based disclosure requirements for IAS 19. However, we believe that a more comprehensive mandatory minimum disclosure requirements for each objective should be clearly set out for IAS 19 in order to ensure comparability and usefulness of the disclosures for users.

The provision of minimum disclosure requirements would ensure there is an objective guide as to which IAS 19 disclosure items are most useful. Otherwise, we consider that an objective assessment by each entity of whether the disclosure objectives has been met is an unrealistic expectation. Preparers, auditors and regulators will determine subjectively and therefore inconsistently which non-mandatory disclosure examples should be reported, which will result in a lack of comparability between financial statements and less useful information for users. This leads to a risk of financial reporting regulators and auditors overlaying their interpretations of what makes for compliance with the disclosure objective for reporting entities that operate within their particular geographical area. It also creates the risk of excessive disclosure by entities, where the non-mandatory examples given in the exposure draft are treated as being a minimum checklist to lessen the risks of being accused of failing to meet the disclosure objectives.

In the absence of a list of mandatory minimum specific disclosure requirements (which ideally also carries at least a rebuttable presumption of being sufficient to meet the disclosure objectives), we believe that the benefit of the proposed amendments to IAS 19 disclosures would not outweigh their costs.

Our detailed answers to questions 12 to 18 of the exposure draft in respect of IAS 19 disclosure requirements are set out below.

Question 12—Overall disclosure objective for defined benefit plans
Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans? If not, what alternative objective do you suggest and why?

We agree that the proposed overall disclosure objective would result in the provision of useful information about defined benefit plans, assuming it is satisfied by preparers of financial statements.

We note that the objectives are broadly similar in nature to those in the current version of IAS19, paragraph 135.

Question 13—Specific disclosure objectives for defined benefit plans
(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about defined benefit plans? Why or why not? If not, what changes do you suggest?
(b) Do you agree that the proposed specific disclosure objectives would result in the provision of relevant information and the elimination of irrelevant information about defined benefit plans in financial statements? Why or why not?
(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.
(d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.

We agree that the specific disclosure objectives are likely to meet the needs of users.

However, we do not expect the proposed objectives to alter significantly the relevance or irrelevance of information provided. This is because we anticipate that many preparers will largely continue to use their existing IAS 19 disclosure notes on the basis that this satisfies the disclosure objectives. This is based on our extensive experience of the implementation of the 2011 revisions to IAS 19 which introduced the overarching disclosure requirements of paragraphs 135-138. The overwhelming response was to make the minimum changes to existing disclosures that were necessary to comply with the new disclosure requirements. As many entitles do not have much in-house knowledge of post-employment defined benefit plans, it is somewhat inevitable that they will continue to reach out to their advisers and auditors for template disclosure wording rather than seek to build the knowledge required to form the disclosure judgements that the exposure draft requires.

If the IASB wish to change the behaviours or approach to IAS 19 disclosures then we would recommend setting out clear mandatory minimum disclosures, so that the IASB's expectations are consistently applied in a way that improves both usefulness and comparability.

On balance, we do not believe that the benefit of the proposed amendments to IAS 19 disclosure requirements in their current form would justify their costs, given that they are likely to lead to additional audit costs even if preparers do not incur additional costs in preparing the disclosures.

Question 14—Information to meet the specific disclosure objectives for defined benefit plans
(a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 147F, 147M and 147V of the [Draft] amendments to IAS 19? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objectives?
(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

We agree that entities should be required to disclose the proposed items of information in paragraphs 147F and 147V of the Draft amendments to IAS 19. We consider this basic reconciliation information to be essential in helping users of financial statements understand the change in defined benefit liability/asset during the reporting period.

We do not agree with the disclosure requirements in paragraphs 147L to 147M because we believe they will lead to inconsistent reporting and a lack of comparability. In our view, it would be more useful to users if there were a mandatory disclosure requirement for all contractual cash flows such as those arising under minimum funding requirements or agreed funding commitments; and when and how those contractual cash flows are subject to future revision. In addition, we think the focus should be on the effect of the net defined benefit liability/asset on the entity's cash flows (i.e. allowing for defined benefit plan assets for funded plans) rather than the effect of the defined benefit obligation.

More generally, we support mandatory minimum disclosure requirements for IAS 19, in order to ensure comparability and usefulness of the disclosures for users. This would provide an objective guide as to which IAS 19 disclosure items are most useful to users of financial statements and avoid the development of inconsistent local custom and practice as permitted by local auditors, or local expectations being overlaid onto IAS 19 by local regulators of financial reporting.

Question 15—Overall disclosure objective for defined contribution plans Paragraphs BC156–BC158 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for defined contribution plans. Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined contribution plans? If not, what alternative objective do you suggest and why?

We have no objection to the proposed disclosure objective although we are unclear as to whether it will lead to any changes in practice given the straightforward nature of defined contribution plans.

Question 16—Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control
Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

We agree that the proposals would provide useful information. However, we believe it is important for the drafting to distinguish clearly between the objectives for multi-employer plans and those for defined benefit plans that share risks between entities under common control.

Question 17—Disclosures for other types of employee benefit plans
Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

We agree that the proposed disclosure objectives for other types of employee benefit plans would result in the provision of useful information.

Question 18—Other comments on the proposed amendments to IAS 19
Do you have any other comments on the proposed amendments to IAS 19 in this Exposure Draft, including the analysis of the effects (paragraph BC216 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

We have the following additional comments on BC216:

- We do not believe that entities will be able to determine objectively or consistently the information that is most useful to users of financial statements in the absence of clear guidance on minimum mandatory requirements within IAS 19. Contrary to the table in BC216, we consider that a checklist will help entities to focus on providing only material information.

- We do not agree that assumption-by-assumption sensitivity analysis is not useful, assuming that such analysis is limited to the most significant actuarial assumptions. Such analysis enables users to broadly assess the scale of measurement uncertainty related to the choice of those assumptions. However, to be most useful this type of analysis should consider the impact on the net defined benefit liability (not just the defined benefit obligation) and the resulting expected impact on the entity's future cash flows.

The illustrative examples are helpful, but we feel it would be even more helpful for maintaining consistency between entities with similar plans if the Board went further and provided illustrative examples for all of the specific disclosure objectives.

We would be happy to respond to any questions that you may have on our comments.

Yours sincerely

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About the Association of Consulting Actuaries (ACA)

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The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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