Canadian Institute of Actuaries | Institut canadien des actuaires

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Subject: Exposure Draft: *Disclosure Requirements in IFRS Standards—A Pilot Approach*

The Canadian Institute of Actuaries (CIA) is pleased to offer the following comments in response to the exposure draft entitled *Disclosure Requirements in IFRS Standards—A Pilot Approach*. We have provided responses to certain questions posed in the draft document. Our responses relate to the proposed guidance for developing disclosure requirements and to IAS 19, as we are not commenting on IFRS 13.

1) *Using overall disclosure objectives*
   Paragraphs DG5–DG7 of this Exposure Draft explain how the Board proposes to use overall disclosure objectives in future.
   (a) *Do you agree that the Board should use overall disclosure objectives within IFRS Standards in future? Why or why not?*
   (b) *Do you agree that overall disclosure objectives would help entities, auditors and regulators determine whether information provided in the notes meets overall user information needs? Why or why not?*

   We agree to use the overall disclosure objectives in the future. This relates to a concept applied to all items of the financial statements. As such, they need to be broader and cover high-level items whereas the specific disclosure objectives in the respective standards will be more precise. However, we find that this remains somewhat too general, and the objectives should be geared toward the most significant risks the entity faces with their defined benefit plans. We do find the section on overall disclosure objectives to be helpful for entities, auditors, and regulators to identify the key elements to consider when preparing the disclosure contents and what to focus on.

2) *Using specific disclosure objectives and the disclosure problem*
   Paragraphs DG8–DG10 of this Exposure Draft explain how the Board proposes to use specific disclosure objectives in future.

(a) Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would help entities apply judgements effectively when preparing their financial statements to:

(i) provide relevant information;

We agree that providing explanation helps understand why we require such disclosure. It helps guide the decision on what to present or not.

(ii) eliminate irrelevant information; and

In practice, the explanation paragraphs do tend to be redundant. A more general description applying to multiple sections of the disclosure could be used instead of duplicating explanations that are common to different sections.

Also, it might be difficult to identify the needs for all users (such as items for users to "identify and include in their analyses." It could be a very large array and be difficult to answer all possibilities).

(iii) communicate information more effectively?

Why or why not? If not, what alternative approach would you suggest and why?

As per above, we agree, although sometimes leaving too much judgment makes it even more difficult for entities to identify the minimum need and may lead to even more disclosures to "ensure the judgment applied meets the threshold expected" as the entity will now have the onus to define what is needed.

(b) Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would provide a sufficient basis for auditors and regulators to determine whether an entity has applied judgements effectively when preparing their financial statements? Why or why not?

By having specific disclosure objectives, the entity can focus on information relevant to the plan that will meet those objectives and be helpful to users including auditors and regulators (e.g., focus on information for frozen plans and eliminate the irrelevant information applicable to open groups when a user wants to perform a cash flow analysis or some projection of a plan's future situation).

3) *Increased application of judgement*
Paragraphs DG2–DG3 and DG8–DG13 of this Exposure Draft explain why, in future, the Board proposes to:
(a) use prescriptive language to require an entity to comply with the disclosure objectives.

(b) typically use less prescriptive language when referring to items of information to meet specific disclosure objectives. An entity, therefore, would need to apply judgement to determine the information to disclose in its circumstances. This approach is intended to shift the focus from applying disclosure requirements like a checklist to determining whether disclosure objectives have been satisfied in the entity's own circumstances. Paragraphs BC188–BC191 of the Basis for Conclusions describe the likely effects of this approach on the behavior of entities, auditors and regulators towards disclosures in financial statements. Paragraphs BC192–BC212 of the Basis for Conclusions describe the likely effects of this approach on the quality of financial reporting, including the cost consequences of the approach.

(a) Do you agree with this approach? Why or why not? If not, what alternative approach do you suggest and why?

We agree with having some disclosure information be mandated and other information be voluntary or be left to judgment.

(b) Do you agree that this approach would be effective in discouraging the use of disclosure requirements in IFRS Standards like a checklist? Why or why not?

It will limit some of the disclosures that were mandatory before by leaving more judgment to the entity, although, to avoid the risk of "bad judgment," some may decide to use the list of "voluntary disclosures" and apply it.

Many entities in Canada are cross-border registrants with the US and are also subject to SEC rules. The new requirements based on judgments will add challenging issues for Canadian entities subject to SEC rules and their checklist requirements.

(c) Do you agree that this approach would be effective in helping to address the disclosure problem? For example, would the approach help entities provide decision-useful information in financial statements? Why or why not?

Entities still have to apply judgment in determining what information would help users. So, it will still be a challenge to make that decision, maybe even more so because some "required" items have moved into the "voluntary disclosure" category. For some preparers (for example, entities with benefit plans that are not as significant to their entire financial statements), it will help because previous mandatory requirements were not relevant and will now be left to judgment.

(d) Do you agree that this approach would be operational and enforceable in practice? Why or why not?

We believe it can work, but this might lead to an increased workload by the entities to decide on which items are “relevant” or “not” to include or take out, so it may be difficult in practice for some cases.

(e) Do you have any comments on the cost of this approach, both in the first year of application and in subsequent years? Please explain the nature of any expected incremental costs, for example, changes to the systems that entities use to produce disclosures in financial statements, additional resources needed to support the increased application of judgement, additional audit costs, costs for users in analyzing information, or changes for electronic reporting.

We do not foresee a complex application from a cost perspective but there will be a significant need for time to make judgment decisions at the entity level and to validate those with auditors. Auditors will also need to define if the revised disclosure is sufficient or not, thus, we expect more cost in the first year than subsequent years.

4) *Describing items of information to promote the use of judgement*
   The Board proposes to use the following less prescriptive language when identifying items of information: ‘While not mandatory, the following information may enable an entity to meet the disclosure objective’. Paragraph BC19–BC26 of the Basis for Conclusions describe the Board’s reasons for this language and alternative options that the Board considered.
   Do you agree that the proposed language is worded in a way that makes it clear that entities need to apply judgement to determine how to meet the specific disclosure objective? If not, what alternative language would you suggest and why?

   We agree that the wording is clear.

5) *Other comments on the proposed Guidance*
   Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the Board proposes to develop disclosure requirements in IFRS Standards in future applying the proposed Guidance. Paragraphs BC188–BC212 of the Basis for Conclusions explain the expected effects of any disclosure requirements developed using the proposed Guidance.
   Do you have any other comments on these aspects? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

   No other comments.

We have no responses for questions 6 to 11.

12) Overall disclosure objective for defined benefit plans
Paragraphs BC107–BC109 of the Basis for Conclusions describe the Board's reasons for proposing the 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?

An overall disclosure objective by nature will be more high level. We believe that 147A to 147C provide a good basis for the overall disclosure objective.

The aggregation/disaggregation decision can sometimes be challenging. 147C does provide some examples but will still leave room for reasonable judgment. It will allow the entity to decide on whether to aggregate or not.

The Board proposes specific disclosure objectives that require an entity to disclose information about:
(a) amounts in the primary financial statements relating to defined benefit plans (paragraphs 147D–147F of the [Draft] amendments to IAS 19);
(b) the nature of, and risks associated with, defined benefit plans (paragraphs 147G–147I of the [Draft] amendments to IAS 19);
(c) expected future cash flows relating to defined benefit plans (paragraphs 147J–147M and A2–A7 of the [Draft] amendments to IAS 19);
(d) future payments to members of defined benefit plans that are closed to new members (paragraphs 147N–147P of the [Draft] amendments to IAS 19);
(e) measurement uncertainties associated with the defined benefit obligation (paragraphs 147Q–147S of the [Draft] amendments to IAS 19); and
(f) reasons for changes in the amounts recognized in the statement of financial position for defined benefit plans (paragraphs 147T–147W of the [Draft] amendments to IAS 19).

13) Specific disclosure objectives for defined benefit plans
Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objectives about defined benefit plans, and discuss approaches that the Board considered but rejected.
(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?

We agree with the section of specific disclosure objectives and find that the information provided in it is relevant and will cover the needs of users. We do have some comments on the more specific sections that detail the disclosures proposed to meet the objectives, which we add in this question for items (a) to (f).

With respect to item (c) above, we agree that information about expected future cash flows is an important consideration when assessing how the plan can affect the entity's economic resources. However, cash flows or employer contributions are usually determined on a much different basis than under the required accounting assumptions and methods used to value the defined benefit obligation. While it can sometimes be captured in part through the application of IFRIC 14, a plan can show a net defined benefit asset (i.e., surplus under the accounting basis) while having a material deficit to fund under the prescribed legislation or vice versa. The Facts section of Example 4 under IE3 seems to identify the net defined benefit liability (i.e., the deficit under the accounting basis) of CU663 million as the deficit based on regulatory requirements, which could in fact be materially different. Thus, we suggest that the example also identifies the potential mismatch between the net defined benefit liability/asset and the funding position based on regulatory requirements, with the latter being the one used in determining the expected future contributions.

With respect to item (f) above, we support the idea of having an executive summary addressing the main information related to defined benefit plans. We would suggest that this summary contains a disclosure of the relative magnitude of the defined benefit liabilities to the entity's overall balance sheet liabilities. This information should communicate to users in a simple and clear way how material defined benefit plans are to the entity.

There is one section for closed plans, but we are not certain if this requires a separate section or whether it could be covered in the nature of the defined benefit plans.

(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?

We see that the list of disclosure items under “shall” is very limited. The ones identified as such appear to be answering the minimum requirement of information relevant to employee benefits.

The items under the “while not mandatory” are numerous and can serve different purposes which appear to leave necessary room for judgment. As per our previous comment, however, having a long list of “possible” disclosure may lead to entities and auditors wanting to stick to the list to avoid the risk of not covering something. It may, in some cases, leave too much judgment and result in entities deciding not to provide a lot of information. We still believe that some assumptions (e.g., the discount rate) might be relevant information and be expected by the readers.

We see that the items under the “shall” category are limited, so it does answer the need to limit the cost for those entities with not very significant benefit plans. As for those with more comprehensive benefit plans, which are significant to the entity’s financial statements, the items listed in the “while not mandatory” category are not too complex to obtain.

(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.*

No response.

(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.*

No response.

14) *Information to meet the specific disclosure objectives for defined benefit plans*
Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans, and discuss information that the Board considered but decided not to include.
(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?

The elements under the "shall" category are reasonable and relevant to most readers of the financial statements, so we agree.

As mentioned before, we are somewhat unsure how the practice will evolve. Leaving judgment with a list of detailed items such as the ones found in the draft may either lead to cases where entities and auditors will avoid the risk of making a bad decision and require all items even if deemed "not mandatory" or may, in some cases, lead to some entities seeing that the new approach has fewer mandatory requirements and only stay within these disclosures. Looking at the list provided, they are important elements to consider and seem reasonable. We would be surprised to see other elements than those listed be used in disclosure. As such, we believe it does cover the comprehensive list.

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?

The accounting standard sets out the requirements for defined contribution plans, which are relatively simple. As such the overall disclosure objective required is consistent, in our view, with the nature of the promise and answers the need of users.

16) *Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control Paragraphs BC159–BC166 of the Basis for Conclusions describe the Board's reasons for proposing which disclosure objectives should apply 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?

For all these plans, the elements required are limited but there is a large array of other elements under the "while not mandatory" category, which if completed properly will cover the significant areas of risks and information needed. Thus, we do agree with the proposed paragraphs.

17) *Disclosures for other types of employee benefit plans*
Paragraphs BC167–BC170 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objectives 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?

Similar to defined contribution plans, these types of plans are somewhat simpler in nature and often less significant, so the disclosure objective is aligned with that fact. These proposals are therefore appropriate while leaving room for increased disclosures if deemed necessary for a particular case.

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 nothing to add for the disclosure perspective for traditional plans. However, a future project based on non-traditional plans (having a mix of defined benefit and defined contribution features) should be looked at. The current IAS 19 does not have sufficient support to deal with the accounting treatment and disclosure of these types of plans that have started to be more prevalent in the Canadian environment. We encourage the Board to think about working in that area.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, CIA Staff Actuary, Communications and Public Affairs, at 613-656-1927 or chris.fievoli@cia-ica.ca.

Sincerely,

[original signature on file]

Jacqueline Friedland, FCIA
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