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International Accounting Standards Board
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11 January 2022

Dear Prof Dr Andreas Barckow,

The German Institute of Pension Actuaries (IVS), a subsection of the German Association of Actuaries (DAV), appreciates the opportunity to comment on the IASB's **Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)*** issued by the IASB on 25 March 2021.

As pension actuaries, our clients and therefore our daily work could be most affected by the proposed amendments to IAS 19. Consequently, the commentary on questions 12 to 18 is the clear focus of this Comment Letter. In contrast, we have far fewer points of contact with the standard IFRS 13. We therefore have not commented on the proposed amendments to IFRS 13 and only comment on questions 1 to 5 of the Draft Guidance on a general level and in a bundled form.

Proposed Guidance for developing disclosure requirements in IFRS Standards in future

Questions 1 to 5

In general, we appreciate the proposed objectives-based approach and this 'fresh look' at things, but there remain many issues to be solved and more guidance to be provided to make this new approach work in practice. For example, there should be guidance on which different kinds of typical users the IASB has in mind, what their information needs are and how these needs could be met. In addition, the needs of the preparers, who have the burden and cost to prepare financial statements, should be better balanced with user's views.

There should also be a better balance between disclosure objectives and specific (minimum) information that must be disclosed. For example, information that is quite clear should not be formulated as an objective, but as mandatory information.

We appreciate the proposed wording of specific pieces of information that are not mandatory but that could help to achieve the objectives (starting with 'while not mandatory ...'). Nevertheless, we are concerned about two main consequences. Firstly, it could be interpreted as a new type of checklist. Secondly, although preparers are aware that it is not a checklist, they might decide to disclose all this information, even if not relevant or material, simply to avoid a discussion with auditors and enforcers as to why a particular piece of information could be missing. Otherwise, preparers would have to document extensively the applied judgement to defend their decisions, if challenged by auditors and enforcers. This could lead to an additional preparer burden.

We are of the opinion that the main reason for the 'disclosure problem' is the incorrect application of materiality. Currently, disclosures are made in many cases even if they are immaterial. As a result, based on the current IFRS Standards, a significant education effort is necessary to increase the application of judgement for preparers, mainly to decide whether an item of information is material and relevant and should be disclosed or not. This is independent from the proposed Draft Guidance. With respect to the Draft Guidance, there should be more guidance and/or examples on the overarching materiality concept with a specific reference to pensions, i.e., under what specific circumstances should employee benefit-related information not be disclosed that otherwise would have to be shown in the notes.

In a nutshell, we share most of the concerns as already expressed by three Board members in their Alternative View, e.g., about comparability, enforceability, and preparer burden.

Overall, we are concerned that a company is possibly not willing to disclose all risks (related to a pension plan) on its own. For example, accounting scandals of the past have unfortunately shown that many companies are reluctant to disclose information about risks that are to their disadvantage. Clearly, this issue is independent from employee benefits or fair value disclosures. But the question is considered differently when a preparer is asked specifically about an issue (e.g., because it is on a checklist). Checklists, despite all their weaknesses, should therefore not be rejected across the board. It is also worth noting that in preparing and auditing financial statements checklists will be applied anyway to ensure completeness and practicability. Not the checklist itself is a problem – but any decision to disclose immaterial checklist items.

Proposed amendments to IFRS 13 *Fair Value Measurement* applying the proposed Guidance

Questions 6 to 11

As indicated above we do not comment on these questions.

Proposed amendments to IAS 19 *Employee Benefits* applying the proposed Guidance

Question 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?

We are of the opinion that the overall disclosure objective for defined benefit plans is not that different from the current disclosure objectives as set out in IAS 19.135–138. Nevertheless, we are not aware of significant deficits on the aspect of aggregation and disaggregation of information and would appreciate more guidance on this issue, e.g., where does the Board currently see deficits and how could the aggregation of information be improved in the future.

We believe that it is not appropriate to separate commentary on the specific disclosure objectives for defined benefit plans from commentary on the information that might be appropriate to achieve those specific disclosure objectives. We therefore respond to questions 13 and 14 together and do this separately for every specific disclosure objective.

Question 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?*
- (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.*

Question 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?*

As indicated above we comment on Questions 13 and 14 together and do this separately on each of the six special disclosure objectives. For orientation purposes, we have numbered these special disclosure objectives (SDOs) according to their order in the Exposure Draft from SDO1 to SDO6. We suggest a similar numbering in the final IAS 19 disclosure provisions for easier reference.

SDO1—Amounts in the primary financial statements relating to defined benefit plans (147D-F)

We clearly support the concept of an 'Executive Summary' and that it should be at the beginning of the disclosure provisions. We do not expect much change to current disclosures or an unnecessary preparer burden to provide this information. We agree that this information is an absolute must and should therefore be

mandatory. Nevertheless, it could be considered whether the comparison information for the previous period and the actual year could be omitted.

In addition, we appreciate the provided example IE2. Nevertheless, in the first part of the example the experience adjustments on the liability side (not relating to changes in assumptions) are missing. Furthermore, we question whether surplus and deficit in this example can be offset.

SDO2—Nature of, and risks associated with, defined benefit plans (147G-I)

We appreciate that a description of the nature of, and risks associated with, defined benefit plans is part of a special disclosure objective. Nevertheless, we are afraid that some requirements, for example, the description of how a company manages investment risk, can lead to boilerplate statements. We are of the general opinion that to the extent possible, narratives should be replaced by quantitative data as in our view many of today's disclosures are too long due to boilerplate narratives.

There should be an explicit and mandatory requirement with respect to the funded status of the plan under the regulations and supervisory rules of the plan itself, as well as how the benefits are financed in general. This should also make it clear where the differences to the IAS 19 values result from.

There should be a separate special disclosure objective to describe special events like plan amendments, settlements, and curtailments. This information (if material) is too important for the users of financial statements to simply be 'hidden somewhere' (currently in 147I (c)).

We are of the opinion that the disclosure of the expected return on plan assets (and how it was calculated) could be omitted from the not mandatory disclosures list, because these disclosures tend to be boilerplate. If the return on plan assets is thought to be important information for the users of financial statements, the disclosure of the actual return on plan assets as a percentage over a past period of, for example, 3 to 5 years, could provide useful information. It could be added to the list of not mandatory disclosures in IAS 19.147I together with the requirement that any material difference between the expected asset return and the actual return be explained.

We are missing that labor law risks are not mentioned explicitly in IAS 19.147I. For example, a short description of the type and number of lawsuits, either as an absolute figure or a percentage of covered employees, might be a useful indicator for a user about 'peace and harmony' – or the lack there of – within the population covered by a plan as well as a possible significant hidden risk to provide higher benefits than initially thought and financed. Such labor law risks should be added to the list of not mandatory examples in IAS 19.147I.

SDO3—Expected future cash flows relating to defined benefit plans (147J-M)

We agree with this objective, especially that cash flow related information justifies its own special disclosure objective. Nevertheless, we see some need for clarification as further outlined below.

First, it should be clarified that the 'cash flow' only relates to the defined obligation as accrued as per the balance sheet date, e.g., without cash flow relating to future employee service. According to our view there should be no discretion to include future service-related accrual in the disclosed cash flow in 147M. This is for comparison purposes and to avoid confusion, but also because cash flow relating to future employee service is already listed as not mandatory information in 147L (d).

Furthermore, it should be clarified that for a fully funded plan 'cash flow' does not mean benefit payments, but the contribution to the fund, and for an unfunded plan, that 'cash flow' relates to benefit payments which are paid directly from company assets. In case of a partially funded plan contributions and benefit payments should be disclosed separately due to their different characteristics and should not be consolidated in a single amount.

It should be clarified whether a minimum payment period for which cash flow related information must be provided, e.g., three or five years, should be included in the final disclosure provisions.

We welcome the disclosure of cash flow related information with respect to future employee service as drafted in 147L (d), e.g., whether it can be expected that these contributions are expected to be greater than, similar to or less than contributions made in the current reporting period, and why. It could be considered to extend this type of information, for example, to set the amount of contribution in relation to the payroll of the covered employees, e.g., how much additional cash as a percentage of salary must be provided regularly to fund the defined benefit plan. We think that to set the amount of cash flow in relation to the payroll is a piece of information that could easily be prepared but would nevertheless provide important information to a user with respect to the question 'how generous is a defined benefit plan' in comparison to other plans of the same industry segment within the same jurisdiction.

We think that it should be mandatory, as indicated with 'shall', to disclose funding agreements as agreed upon (or expected with a high degree of probability) with the plan trustees. If such an agreement does not exist or funding is voluntary in a particular jurisdiction such information should also be mandatory. This means that 147L (a) should be adjusted accordingly and no longer be listed as an example of not mandatory information. Please also compare our comments to SDO2.

Finally, we would like to emphasize that the duration of a plan should continue to be disclosed as a mandatory piece of information for all defined benefit plans,

independent from the fact whether a plan is open or closed to new entrants. Please also compare our comments on SDO4.

SDO4—Future payments to members of defined benefit plans that are closed to new members (147N-P)

We think that, not only from a continental European perspective, this special disclosure objective is too 'UK-specific' and could be incorporated into the special disclosure objective relating to the expected future cash flows, see SDO3. The reasoning for our rejection is also that these types of plans, provided they still allow for future service-related accrual of benefits for current members, are not that different from defined benefit plans that are still open to new entrants.

We also suggest keeping the plan duration as a mandatory disclosure for all defined benefit plans, either open or closed to new entrants (please compare our comments to SDO3). It should be easy for the plan's actuary to calculate the duration and to provide this figure at low cost. The duration is especially important for users to assess how much the defined benefit obligation changed in cases of variations of the discount rate.

SDO5—Measurement uncertainties associated with the defined benefit obligation (147Q-S)

We strongly disagree with 147S (d) because the concept of alternative actuarial assumptions reasonably possible at the end of the reporting period that could have significantly changed the defined benefit obligation (DBO) is inconsistent with the concept of 'unbiased' (IAS 19.75) and 'best estimate' (IAS 19.76) assumptions. In addition, even to us as actuaries, it is not perfectly clear how this type of information should be provided in practice. One answer could be to provide the actuarial assumptions, and perhaps the resulting DBO, for a theoretical situation in which all actuarial assumptions have been chosen as aggressively as possible but still of course mutually compatible ("best case"), as well as the actuarial assumptions, and perhaps the resulting DBO, for another scenario for which all actuarial assumptions have been chosen as conservatively as possible and, again, mutually compatible ("worst case"). This would give a lower and an upper bound of 'reasonably possible' alternative actuarial assumptions and resulting alternative measurements of the defined benefit obligation. In case this was meant by the special disclosure objective then additional guidance would be needed for clarification, for example in the form of an illustrative example. In addition, many entities, who have a natural interest to show low liabilities, might decide to choose the most aggressive, but still acceptable, actuarial assumptions. In a nutshell, we think that the primary goal for the Board should be to narrow any still existing measurement uncertainties in IAS 19 by adjusting the provisions about how to

determine actuarial assumptions and not to demand from preparers to disclose the measurement uncertainties that stem from any deficiencies of the Standard.

For a further illustration of this principle, we choose the discount rate because it is usually the most important parameter for the valuation of a defined benefit plan. The main objective for the Board should be to clarify the rules for determining the discount rate in IAS 19.83 and thereby limit the measurement uncertainties. The disclosure of a possible range of discount rates and the resulting measurement uncertainties for the preparer's defined benefit plans would only be second best.

With respect to the discount rate, we think that in general there should be more information about how precisely the discount rate has been calculated. This could include the disclosure of the fact whether the preparers use their own discount rate model or whether they use the model of an external provider. In the latter case a reference or link etc. to this external provider where detailed information about the discount rate model is publicly available could be added to the list of not mandatory examples in 147S.

We do not agree with the Board's view that the sensitivity analysis as outlined in IAS 19.145 (a) does not provide useful information or is costly to prepare. Instead, it is an already well-established practice to illustrate how the DBO would change if one of the significant actuarial assumptions was adjusted up or down. In particular, the current sensitivity analysis allows users with basic analytical skills to calculate what the DBO would have been in case one of the parameters, for example one that they think was chosen inappropriately by the preparer, was changed to a value that they think is more appropriate. We therefore view the current sensitivity analysis (if focused on material assumptions) as a proven concept to disclose the potential effects of measurement uncertainties.

SDO6—Reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans (147T-W)

We appreciate the disclosure of the reconciliation of the defined benefit obligation, the fair value of plan assets, the effect of the asset ceiling and the resulting amounts recognised in the statement of financial position in a standardized tabular format. Because this type of information is already provided in current disclosures, although in a different format, the burden for preparers should be limited. We only suggest shifting this special disclosure objective more to the beginning, for example directly after SDO1 explaining the amounts in the primary financial statements. This is because we believe that the special disclosure objectives with mandatory disclosures should be closer to the top of the disclosure provisions. In addition, SDO1 and SDO6 are somewhat similar and mainly cover the 'basic figures' of the planned disclosure for defined benefit plans.

Finally, we would like to mention the need of two editorial clarifications:

- It should be clarified that the reconciliation is not only with respect to the net figures, but with respect to the three input figures (defined benefit obligation, fair value of plan assets, effect of asset ceiling) as mentioned above. We think that there is some risk of misinterpretation in the current wording of the Exposure Draft.
- 147V does not make use of clear wording that should be used in standards ('shall' or 'while not mandatory ...'). Instead, it uses the following wording: 'Reasons for changes that might be appropriate include, but are not limited to, the following'.

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 agree that the proposed overall disclosure objective for defined contribution plans would result in the provision of useful information for the user. We do not think that this objective would result in an unnecessary preparer burden. Nevertheless, it should be clarified that the current requirement to disclose the amount recognised as an expense in the reporting period according to IAS 19.53 continues to be mandatory.

In addition, and like 147L (d) about the expected future cash flows relating to defined benefit plans we think that to provide an indication whether the amount of contributions to a defined contribution plan can be expected to be greater than, similar to or less than the amount of contributions made in the current reporting period, and why, would provide useful information for the user. Given the fact that cash flow related information is of great importance for the typical user, it should be at least mentioned as an example of not mandatory information.

Furthermore, we are of the opinion that any material changes to the contribution formula and resulting benefits during the reporting period should be a mandatory disclosure. This includes the amount of contributions as well as the employees covered by the defined contribution plan. This proposal is similar to our proposal for defined benefit plans to disclose special events separately as part of its own special disclosure objective (see our comments to SDO2 regarding the nature of, and risks associated with, defined benefit plans).

Finally, we are aware that some benefit plans treated as defined contribution plans in the past are subject to a contingent liability of the sponsoring employer to step in if benefits are reduced under the rules of the plan. If this could be the case, and at

the latest at the time when such a risk has grown significant over time, it should be a mandatory disclosure item.

Question 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??

We agree that the proposals for multi-employer plans (MEP) would result in the provision of useful information for the user, especially because the proposed disclosure provisions are not that much different from the current provisions according to IAS 19.148. In addition, we are not aware of many shortcomings with respect to the disclosure of MEPs. Therefore, we would appreciate some examples of types of information currently missing in practice that could be useful for a typical user of financial statements.

We think that any information about known deficits or surplus in the plan that may affect the amount of future contributions should continue to be mandatory. This is contrary to 148B (b) of the Exposure Draft, where this type of information is shown as an example of not mandatory information.

Furthermore, we propose to add or clarify that the expected pattern of future contributions as proposed for defined benefit plans in 147L (d) of the Exposure Draft or by us for defined contribution plans in our answer to Question 15 should be disclosed for all types of MEPs and independent from their respective accounting treatment as defined benefit plan or defined contribution plan.

The proposed disclosure provisions for defined benefit plans that share risk between entities under common control are not of much relevance for our jurisdiction because such entities usually do not prepare separate financial statements according to IFRS. Therefore, we do not comment on this issue.

Question 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?

We agree to a great extent. We do not think that these overall disclosure objectives will result in an unnecessary preparer burden. Nevertheless, we are of the opinion that special emphasis should be placed on the disclosure provisions for termination benefits. Especially, we think that it should be mandatory to disclose any changes to such plans, if relevant and material. Again, this proposal is similar to our proposal for defined benefit plans to disclose special events separately as part of a separate special disclosure objective (see our comments to SDO2 regarding the nature of, and risks associated with, defined benefit plans).

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?

For hybrid plans, which are benefit plans with characteristics of both defined benefit plans and defined contribution plans, there should be no special disclosure objectives at this stage. We are of the opinion that prior to the drafting of any disclosure objectives the issue about how such plans could be more appropriately measured should first be addressed. This means that the disclosure for these types of plans should follow the measurement and not vice versa.

The current service cost component of the defined benefit cost under a defined benefit plan is commonly regarded as the equivalent to the contributions under a defined contribution plan. Therefore, we are of the opinion that it also makes sense to disclose the pattern of current service cost, e.g., whether current service cost is expected to stay unchanged, increase or decrease in the future. For example, in our jurisdiction it is quite often the case that young and old employees are participating in a similar type of defined benefit plan, but that the general benefit level and therefore the current service cost are higher for the older employees because of grandfathered benefits (independent from any additional discount rate or salary effects). In such a situation it can be expected that under the assumption of a stable workforce the current service cost will decrease, simply because the old employees with the grandfathered higher benefits are successively replaced by young employees with lower current service cost. It is our opinion that such information could be important for a user of the financial statements and is

relatively easy to prepare. Therefore, it should be added to the list of not mandatory examples of disclosures.

It should be considered, independent from the benefit category or type of plan, to disclose the internal and external annual plan administration cost as part of the IAS 19 disclosure. This would comprise components like the cost to prepare benefit statements and make the final benefit calculations once the payments become due, payroll services like the payment of taxes and social security contributions, legal, actuarial and audit fees etc. Surely, these figures can be found 'somewhere' in the financial statements of the sponsoring entity, but a central place, for example at the end of the IAS 19 disclosure, could make life easier for a typical user, especially a potential investor.

Finally, we propose to develop some key statistics about the membership data of a plan that could be easily prepared, but which would nevertheless provide useful information for a user. This could include the number of active employees, deferred vested and pensioners covered by a plan, their average age, past service, salary and (expected) benefit level etc. In addition, many users might be interested in the number of active employees not covered by a plan because the plan has been closed to new members. Such information might serve to assess equal treatment risks or the cost of (re) introducing a plan for the current uncovered employees. The average benefit level is also indicative of the generosity of a plan. The informed user might compare this to other average benefit data for the same industry segment within the same jurisdiction.

We would be happy to discuss our views with you in more detail or answer any further questions you may have.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'J. J. J.', is positioned above the typed name of the Chairman.

Chairman of the Board German Institute of Pension Actuaries
(IVS - Institut der Versicherungsmathematischen Sachverständigen für
Altersversorgung e.V.)