Project	**Post-employment benefits**
Topic	**Benefits and costs**

Objective

1. This paper provides members with the Board's cost and benefits assessment included in the ED and the responses to the assessment received in the comment letters. The purpose of the discussion is for members to provide the Board input in its assessment of the benefits and costs of the proposals.

2. This paper is structured as follows:

   (a) The Board's assessment

   (b) Responses to the assessment

The Board's assessment

3. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. To attain this objective, the Board endeavours to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement changes to existing requirements might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

4. The evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considered the following:

   (a) the costs incurred by preparers of financial statements.

   (b) the costs incurred by users of financial statements when information is not available.

   (c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information.

   (d) the benefit of better economic decision-making as result of improved financial reporting.

   (e) the costs of transition for users, preparers and others.

5. The objective of the proposed amendments is to improve the usefulness of information available to users for their assessment of the amounts, timing and uncertainty of future cash flows arising from defined benefit plans of the entity. However, the Board also considered the cost of implementing the proposed amendments and applying them on a continuous basis.

6. The proposed amendments, if confirmed, should improve the ability of users to understand the financial reporting for long-term employee benefits by:

   (a) reporting changes in the carrying amounts of defined benefit obligations and changes in the fair value of plan assets in a more understandable way;

   (b) eliminating some presentation options that are currently allowed by IAS 19, thus improving comparability;

   (c) clarifying requirements that have resulted in diverse practices; and

   (d) improving information about the risks arising from an entity's involvement in defined benefit plans.

7. Costs would be involved in the adoption and continuing application of the proposed amendments. Those costs will depend on the complexity of an entity's

defined benefit arrangements and the options in IAS 19 that the entity currently elects to apply. However, those costs should be minimal because in order to apply the existing version of IAS 19 entities already need to obtain much of the information that the exposure draft proposes to require. Consequently, the Board believes that the benefits of the proposed amendments outweigh the costs.

Responses to the assessment

8. Most respondents agreed with the Board's assessment that the proposals in the ED for eliminating the corridor will improve the understandability and comparability of the statement of financial position. Most respondents also agreed that reducing options for presentation will improve comparability, however respondents that support retaining the expected return on asset would argue that the net interest approach will reduce comparability and understandability. Some respondents also noted that improvements to comparability and understandability can be achieved by just eliminating the existing options without eliminating the expected return on assets.

9. Most respondents also agreed with the Board that clarifications to requirements will reduce diversity in practice, however many had concerns about particular parts of the clarifications. Views were mixed regarding whether the additional disclosures, including the disclosures on risk and sensitivity analysis will be of benefit to users, and there were concerns that the overall increase in volume of disclosures will not benefit users.

10. Many respondents objected to the Board's assessment that the costs of implementing the proposals will be minimal. Common concerns regarding costs included:

    (a) Significant effort to adapt reporting systems to the new presentation and disclosure requirements

    (b) Additional costs to identify and value administration costs and taxes in accordance with the new requirements.

(c) Additional disclosures required, specifically the sensitivity analysis, will increase costs.

(d) Elimination of the 'other long-term employee benefits' category will significantly increase costs as all the disclosure and presentation requirements for post-employment benefits will need to be applied to these benefits.

(e) Significant costs if entities are required to value plan assets and the defined benefit obligation for interim reporting.

Discussion questions

Do members agree with the feedback provided by comment letters regarding costs of implementing the proposals? Are there any other costs that the Board should consider?

Are there any other benefits that the Board should consider?

How should the Board revise its assessment of benefits and costs?