Thematic review – Pension disclosures

The FRC will conduct a thematic review of companies' pension disclosures to encourage more transparent reporting of the relationship between a company and its pension plans. The disclosures required by IAS 19, 'Employee Benefits', are key to helping users understand the significant factors that could affect the future pension expense and cash flows of the company and the security of future payments to pensioners. Continued low interest rates and the economics of defined benefit pension arrangements have increased the need for companies to improve the transparency of their pension arrangements. Paragraph 135 of IAS 19 describes the objectives that pension disclosures should achieve.

The FRC has identified the following specific areas where improvements can be made. It expects:

- quantified information about the level of funding of the pension scheme expected in future years;
- the risks inherent in the investment strategy to be clearly identified and explained; for example, when this involves the use of complex financial instruments;
- where net pension assets have to be considered, the basis on which the company expects to benefit, including the judgments made when assessing trustee rights; and
- an explanation of how fair value has been determined for assets such as insurance contracts or longevity derivatives.

When the risks and uncertainties are significant, section 414C of the Companies Act 2006 requires these to be described in the strategic report, as well as making reference to and giving additional explanations of amounts included in the company's annual accounts.

Notes:

1. Paragraph 135 of IAS 19 requires companies to disclose information that: explains the characteristics of its defined benefit plans and risks associated with them; identifies and explains the amounts in its financial statements arising from its defined benefit plans; and describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

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