

# Improvements to Presentation and Disclosure of Investments for Pension Plans – Amendments to Section 4600 – Basis for Conclusions

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### INTRODUCTION

- 1 This document summarizes considerations that were deemed significant by the members of the Accounting Standards Board (AcSB) in reaching their conclusions in amending PENSION PLANS, Section 4600. This document sets out the reasons the Board undertook the project to develop the amendments, the process of research and deliberation, the key decisions made and the principal reasons for adopting the positions taken and rejecting others. Individual Board members gave some factors greater weight than other factors.
- 2 Nothing in this document is to be taken as overriding the requirements of Part IV of the CPA Canada Handbook – Accounting (Handbook). However, the discussion may help readers understand how the AcSB reached its conclusions in developing the amendments and the Board's intent with respect to the interpretation and application of the amendments.
- 3 The requirements in Section 4600 are for accounting purposes, which may differ from regulatory requirements applicable to pension plans.

### BACKGROUND

- 4 During 2022 to 2023, the AcSB heard from its Pension Plan Advisory Committee (Committee) that there are gaps in the presentation and disclosure requirements for investments held by pension plans, especially as investment vehicles are becoming more complex. These gaps relate to the use of outdated guidance on fair value disclosures, insufficient information being disclosed on a pension plan's interests in investment vehicles, and a lack of transparency on investment expenses. After considering the advice of the Committee, in December 2023, the Board approved a project to amend Section 4600 to address these concerns.

### EFFECTS ANALYSIS

- 5 The AcSB is committed to enhancing the relevance of accounting standards for pension plans, as necessary, to ensure these standards continue to meet the needs of pension plan financial statement users. These amendments focus on increasing transparency on a pension plan's investments through improved presentation and disclosure requirements.

- 6 The fair value disclosure requirements in Part IV of the Handbook are based on previous guidance in Part I. That Part I guidance has since been updated to include IFRS 13 *Fair Value Measurement* that requires enhanced disclosures in key areas, including on "Level 3" fair value measurements. However, Part IV has not been updated to reflect such enhancements. As investment vehicles evolve and pension plans rely more on highly subjective Level 3 fair value measurements, the AcSB thinks that updating the Part IV guidance to reflect enhancements to Part I guidance will provide useful information. The Board thinks that enhanced fair value disclosures will help financial statement users better assess those subjective valuations, and thus the pension plan's overall financial position and ability to meet benefit payments. In considering the costs associated with implementing these amendments, the Board notes that there are practical ways for pension plans of different sizes to approach the requirements. This can be seen in the varying levels of detail provided in public company financial statements in their fair value disclosures under Part I requirements.
- 7 The amendments to introduce disclosure requirements on interests in investment vehicles are intended to improve transparency, giving users a view into a pension plan's interests in investment vehicles and the associated risks. The disclosure requirements are principle-based and do not require pension plans to gather extensive information that does not already exist. In addition, they do not require pension plans to "look-through" the investment vehicles to the underlying assets and liabilities held by those investment vehicles.
- 8 The amendments to presentation of investment expenses and related disclosure requirements are intended to increase transparency regarding the costs associated with generating investment income. The AcSB thinks that by adding a definition of investment expenses, it creates consistency in the interpretation of what should be included in the statement of changes in net assets available for benefits as an investment expense. This definition will be helpful to pension plans of all sizes. In addition, the Committee notes that some pension plans that provide management's discussion and analysis (MD&A) are already making such disclosures, and therefore the information is readily available to those pension plans.
- 9 The AcSB thinks that additional disclosures related to embedded investment expenses provide insight into what is captured in investment income, but not included in investment expenses. These disclosures provide users with a more fulsome understanding of the cost associated with generating investment income. As these disclosures are intended to be qualitative in nature, the Committee advised the Board that pension plans should have sufficient information to generate these disclosures without significant cost.

## **DEVELOPMENT OF THE AMENDMENTS**

- 10 When developing the amendments to Section 4600, the AcSB followed its due process. The process included:
- (a) issuing, in June 2024, the Exposure Draft, "Improvements to Presentation and Disclosure of Investments for Pension Plans";
  - (b) analyzing and considering feedback to the Exposure Draft received through written responses, roundtable events and specific consultations; and
  - (c) ongoing input from its Committee.
- 11 The AcSB also asked the Committee to perform a fatal-flaw review of the final amendments to the standard to ensure the guidance is:
- (a) clear in reflecting the Board's intent; and
  - (b) written in a manner consistent with other relevant guidance applied by pension plans in Parts I-IV of the Handbook.
- 12 The AcSB received 12 written responses to the Exposure Draft from public accounting firms, preparers and users (including regulators). The Board reminds interested and affected parties that as part of its due process related to Part IV of the Handbook, it makes available a public file of materials relating to completed projects, which includes response letters received unless confidentiality is requested.
- 13 Respondents, including participants at meetings, supported the underlying principles in the Exposure Draft. However, some respondents provided additional comments, suggesting changes to some of the proposals. The specific issues addressed in this project, including the substantive comments received on the Exposure Draft and any changes made in response to those comments, are highlighted in the subsequent sections.

## **AMENDMENTS**

### **Fair value disclosures**

- 14 In accordance with paragraph 4600.32(a)(ii), pension plans currently provide the fair value disclosures required by the Section 4600 Appendix for investments that are financial instruments measured at fair value. The Section 4600 Appendix comprises paragraphs that were deleted from IFRS 7 *Financial Instruments: Disclosures* when IFRS 13 was issued in May 2011. IFRS 13 carried forward much of that former IFRS 7 guidance and introduced additional guidance.
- 15 As investment vehicles evolve, the AcSB wants to ensure that users of pension plan financial statements continue to get useful information on those investments, including information about fair value. The Board compared the disclosure guidance in IFRS 13 to the Section 4600 Appendix and noted that many of the requirements are similar. This is because IFRS 13 carried forward much of the former IFRS 7 guidance upon which the Section 4600 Appendix is based.

However, one key difference is that IFRS 13 requires additional disclosures on fair value measurements categorized within Level 3 of the fair value hierarchy. Level 3 fair value measurements are those that use significant unobservable inputs.

- 16 By their nature, Level 3 fair value measurements have a greater degree of uncertainty and subjectivity. Therefore, when a pension plan holds Level 3 assets and liabilities, the AcSB thinks it would be useful for the plan to disclose additional information on how it measures the fair value of those assets and liabilities. The Board heard feedback from its Committee that pension plans would incur additional costs to prepare these disclosures. The Board notes that the costs would vary depending on the extent to which a pension plan holds Level 3 assets and liabilities. For example, a pension plan may incur minimal to no costs to prepare these disclosures if it invests primarily in investment vehicles whose prices are quoted in active markets. In contrast, a pension plan may incur greater costs if it invests primarily in alternative assets that are not traded in active markets. In this respect, the Board thinks the costs of preparing the disclosures would be commensurate with the nature of the pension plan's investments. Moreover, the Board thinks that the benefits of providing these disclosures would exceed the costs, especially due to the lack of publicly available information on Level 3 assets and liabilities.
- 17 IFRS 13 also includes other new disclosure requirements that are not specifically limited to Level 3 assets and liabilities. For example, IFRS 13 requires an entity to disclose its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred. The Committee advised the AcSB that these other new disclosure requirements would be useful to financial statement users and would not be unduly costly to prepare.
- 18 Therefore, the AcSB decided to require pension plans to provide the disclosures required by IFRS 13 instead of the Section 4600 Appendix for investments that are financial instruments measured at fair value. This resulted in the deletion of the Section 4600 Appendix. Based on the Exposure Draft feedback, the Board also decided to require pension plans to provide the disclosures required by IFRS 13 instead of a description of how fair values have been determined for all other investments measured at fair value. The Board notes that pension plans can look to existing educational materials on IFRS 13 to aid in implementation. They can also look to a wide range of real-life examples in public company financial statement disclosures. The Board thinks these will be helpful references for a pension plan that is looking to develop disclosures that are proportional to its particular investment portfolio while still meeting all the IFRS 13 disclosure requirements.
- 19 Appendix presents a side-by-side view of the fair value disclosure requirements in IFRS 13 and the former Section 4600 Appendix.
- 20 Some Exposure Draft respondents noted that some pension plans (especially small pension plans) rely on third-party valuations for fair value measurement. As these pension plans may not have access to all the information used in developing such valuations, the respondents were concerned about the additional cost/effort that may be needed to meet the IFRS 13 disclosure requirements.
- 21 Paragraph 4600.40 requires pension plans to apply IFRS 13 in satisfying the fair value measurement requirements in paragraph 4600.19. Accordingly, pension plans are subject to the guidance in paragraph B45 of IFRS 13, which states: "This IFRS does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this IFRS." Therefore, the AcSB thinks that pension plans would already have processes in place to ensure that fair values provided by third parties are measured in accordance with IFRS 13.
- 22 Two Exposure Draft respondents commented on the AcSB's proposal to include references to IFRS 13 in the paragraph 4600.32 disclosure requirements, as opposed to incorporating the IFRS 13 disclosure requirements directly into Section 4600. They thought the Board should consider how the applicability of future amendments to IFRS 13 would be evaluated for pension plans as a result. The Board decided to refer to IFRS 13 for efficiency, to ensure the requirements are kept up to date. This would avoid the need to issue an exposure draft for any periodic changes that may be made to IFRS 13 over time, especially if those changes are non-substantive (i.e., minor clarifications or editorial updates).
- 23 The AcSB can seek public feedback from pension plans in any future consultations on proposed amendments to IFRS 13. In balloting those amendments, the Board can also consider whether they would be suitable for application by pension plans. The Board can decide to diverge from IFRS 13 in Section 4600 at that time.

#### **Disclosure of interests in investment vehicles**

- 24 In December 2022, Section 4600 was amended to include new disclosure requirements on a pension plan's interests in master trusts. In particular, paragraph 4600.32C requires pension plans to provide information on the investment assets and liabilities held by those master trusts (i.e., "look-through" disclosures). This requirement focused on interests in master trusts and did not extend to other investment vehicles, such as investment funds. The AcSB noted that, unlike certain investment funds, master trusts are not subject to the same requirements in securities law to prepare audited financial statements.
- 25 However, the Committee advised the AcSB that there is still a need to increase transparency on a pension plan's interests in investment vehicles other than master trusts. For example, while some investment vehicles have audited financial statements, these are not always publicly available. The Committee also advised that it may not be practicable for pension plans to provide look-through disclosures on investment vehicles other than master trusts, as they may not have access to the necessary data.

- 26 The AcSB sought its Committee's feedback on what information would be useful to disclose on a pension plan's interests in investment vehicles other than master trusts. The Committee thought it would be useful to disclose the fair value of the pension plan's interests in investment vehicles and the nature of those investment vehicles (e.g., the primary types of investments held by those investment vehicles). The Committee thought it would also be useful to include commentary on risks.
- 27 The AcSB researched other sources of generally accepted accounting principles and thought there were disclosures in IFRS 12 *Disclosure of Interests in Other Entities* that could be helpful. In accordance with paragraph 24 of IFRS 12, an entity discloses information that enables users of its financial statements:
- (a) to understand the nature and extent of its interests in unconsolidated structured entities; and
  - (b) to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.
- 28 IFRS 12 then outlines several specific disclosure requirements to meet the above objective. The Committee agreed that the above objective could result in useful information but questioned the relevance of some of the specific disclosure requirements in IFRS 12 to Canadian pension plans. The AcSB thinks that one way to ensure only relevant information is disclosed is to keep the requirements principle-based. This would also ensure that the requirements would not be unduly costly for financial statement preparers.
- 29 The AcSB introduces the term "investment vehicles", which the Board thinks is relevant in the pension space to capture entities such as securitization vehicles, asset-based financings and investment funds.
- 30 The AcSB considered whether to define "investment vehicles". Several Exposure Draft respondents suggested that the term should be defined or that guidance should be added to explain what the term is intended to capture. This would help avoid confusion that may cause diversity in practice. The Board thinks it would be difficult to develop a definition that could accommodate new types of investment vehicles that may be created over time. Any such definition would be intentionally broad, which may lead to similar concerns about diverse interpretations.
- 31 Instead, the AcSB decided to link the disclosure requirement to what a pension plan has recognized in its statement of financial position. The disclosures would be required when a pension plan has recognized in its statement of financial position an interest in an investment vehicle, and not the underlying assets and liabilities. For investments that are financial instruments measured at fair value, a pension plan already provides the disclosures required by IFRS 7 in accordance with paragraph 4600.32(a)(i). However, when the pension plan recognizes an interest in an investment vehicle in its statement of financial position, financial statement users may have less visibility into the nature and associated risks of these investments because they may not have information about the underlying assets and liabilities. The disclosure requirements in paragraphs 4600.32D-32E aim to improve transparency on a pension plan's interests in investment vehicles without requiring look-through disclosures.
- 32 To help financial statement users understand the scope of investment vehicles covered in the pension plan's disclosure, the pension plan will be required to provide information on the nature of investment vehicles they hold an interest in under paragraph 4600.32E(b).
- 33 Therefore, the AcSB will require a pension plan to disclose, for its interests in investment vehicles recognized in the statement of financial position other than interests in master trusts, information that enables users of its financial statements:
- (a) to understand the nature and extent of its interests in investment vehicles; and
  - (b) to evaluate the nature of, and changes in, the risks associated with its interests in investment vehicles.
- 34 The AcSB proposed that to achieve the above objective, a pension plan shall disclose the fair value of its interests in investment vehicles, the nature of those investment vehicles and any additional information that is necessary to meet the objective. This captures the other elements noted in paragraph 26 above that the Committee thought would be useful to include.
- 35 The AcSB heard from Exposure Draft respondents that the proposal lacked guidance as to what information is expected to be disclosed on a pension plan's interests in investment vehicles in order to meet the disclosure objectives in paragraph 4600.32D, and paragraph 4600.32D(b) in particular. The objective in paragraph 4600.32D(b) is to disclose information that enables financial statement users to evaluate the nature of, and changes in, the risks associated with a pension plan's interests in investment vehicles. Respondents also noted that it was unclear what level of detail or disaggregation would be required for these disclosures, and whether pension plans would be required to look-through the investment vehicles in providing this information. The Board considered this feedback and decided to provide clarifications and additional guidance:
- 36 A pension plan would disclose the fair value of its interests in investment vehicles under paragraph 4600.32E(a). Determining the level of disaggregation at which to disclose the fair value (such as whether to disclose only the total, a breakdown by investment vehicle type or a breakdown by individual investment vehicle) would be a matter of judgment. This judgment would be based on what would be both useful to financial statement users and practicable for the pension plan to provide. For example, a pension plan may provide more disaggregated information if it is already doing so to meet regulatory requirements. A pension plan may provide more aggregated information if the details could be viewed to obscure material information. Other reasons and approaches may also apply.

- 37 A pension plan would disclose the nature of the investment vehicles it holds an interest in under paragraph 4600.32E(b). In response to the feedback, the AcSB added examples of what this might encompass:
- (a) The types of investment vehicles: A pension plan might disclose, for instance, that its investment vehicles include securitization vehicles and investment funds, such as mutual funds and segregated funds. While some pension plans may choose to list out individual investment vehicles (e.g., to meet regulatory reporting requirements), this would not be required to meet the requirement in paragraph 4600.32E(b).
  - (b) The primary types of investments held by those investment vehicles: A pension plan might disclose, for instance, that its investment vehicles are invested in debt and equity securities, real estate and other similar assets. Determining the level of detail to provide (e.g., whether to provide only qualitative information or whether to disclose quantitative information like allocation ranges) would be a matter of judgment. This judgment would be based on what would be both useful to financial statement users and practicable for the pension plan to provide.
- 38 In response to the feedback, the AcSB decided to add a requirement in paragraph 4600.32E(c) for a pension plan to disclose information that would be relevant to an assessment of the risks to which it is exposed from its interests in investment vehicles. The Board thinks that being involved with investment vehicles can expose a pension plan to more risk than being involved with traditional operating entities. This is because investment vehicles may have restricted activities, be created to pass risks and returns from specified assets to investors or have insufficient equity to fund losses on assets. However, if a pension plan has very limited or no exposure to risk, little or no disclosure would be required. The Board included examples of information that might be relevant to disclose under paragraph 4600.32E(c):
- (a) the pension plan's maximum exposure to loss from its interests in investment vehicles, if this exceeds the amount disclosed in paragraph 4600.32E(a);
  - (b) information on financial or other support provided to the investment vehicles beyond the pension plan's capital investment in them, or any current intentions to provide such support; and
  - (c) information on current intentions to provide financial or other support to the investment vehicles beyond the pension plan's committed capital.
- These examples draw from the risk disclosure guidance in paragraphs 29-31 of IFRS 12 for unconsolidated structured entities. Further examples of information that, depending on the circumstances, might be relevant to an assessment of the risks can be found in paragraph B26 of IFRS 12.
- 39 Finally, a pension plan would disclose any additional information under paragraph 4600.32E(d) that is necessary to meet the disclosure objectives in paragraph 4600.32D.
- 40 The AcSB notes that in providing the information required under paragraph 4600.32E, a pension plan will not be required to look through the investment vehicles in which it holds an interest. A pension plan might provide only general information on the primary types of underlying assets and liabilities when describing the nature of the investment vehicles. A pension plan will not be required to provide information on the fair values of the underlying assets and liabilities held by the investment vehicles, nor will it be required to describe the risks of those underlying assets and liabilities.
- 41 Some Exposure Draft respondents were unclear about how the proposed disclosures would interact with other disclosure requirements, such as the disclosures required by IFRS 7 in accordance with paragraph 4600.32(a)(i). The AcSB thinks the requirements differ in how they describe risk exposure, and that information from both perspectives would be useful. IFRS 7 requires disclosures about credit, liquidity, market and other risks. In contrast, the proposed disclosures would require a pension plan to disclose its exposure to risk from its interest in investment vehicles (i.e., based on the type and extent of the pension plan's transactions with them).
- Presentation and disclosure of investment expenses**
- 42 Prior to these amendments, paragraph 4600.25 required the statement of changes in net assets available for benefits to separately distinguish administrative expenses. Further, paragraph 4600.27 required the statement of changes in net assets available for benefits to present, either on the face of the statements, or in the notes to the financial statements, the details of administrative expenses showing separately actuarial fees, audit fees, trustee and custodial fees, investment management fees and other significant administrative expenses. There were no additional requirements for disclosure related to administrative expenses in Section 4600.
- 43 The Committee informed the AcSB that there is diversity in what is included when pension plans present the details of administrative expenses related to investment management fees, as required by paragraph 4600.27. For example, some pension plans may present the amount paid in investment management fees, without disclosing that there are other investment management fees that are embedded in investment income. Further, the Committee noted that there may be other expenses associated with managing the investment assets and investment liabilities of the pension plan that are not considered investment management fees but should still be captured as expenses associated with the pension plan's investment assets and investment liabilities.
- 44 The AcSB decided that clarification of the presentation and disclosure requirements is needed for users to have a transparent understanding of the cost to manage the investment assets and investment liabilities of a pension plan, along with qualitative information to understand the types of investment expenses. The Board understands from its

Committee and its research activities that the complexity of the types of investment assets and investment liabilities managed by pension plans continues to increase, and therefore the complexity of the related investment expense structures has correspondingly increased. The increasing complexity of these investment expense structures underscores the need for more transparency around the nature of the investment expenses of a pension plan.

- 45 In developing the amendments to the presentation and disclosure of investment expenses in Section 4600, the AcSB considered that there are no corresponding presentation and disclosure requirements related to investment management fees in Parts I-III of the Handbook. The Board discussed the needs of Part IV users and thinks that their needs differ from those who use other parts of the Handbook, as investments are a primary asset for pension plans. Pension plans generally have more complex investment structures and more variability in the types of expenses associated with managing those complex investment structures. Therefore, the Board thinks that the users of pension plan financial statements would benefit from increased transparency over the associated expenses related to managing a pension plan's investment assets and investment liabilities.
- 46 The AcSB considered what and how much information regarding the expense associated with managing a pension plan's investment assets and investment liabilities should be provided in the financial statements, as opposed to other sources of disclosure, such as the MD&A and regulatory filings. The Committee advised the Board that including disclosure in the MD&A provides more context around investment expenses as they relate to investment strategy, cost effectiveness and benchmarking of investment expenses. The Committee also noted that the MD&A is not prepared for all pension plans and, therefore, financial statements may be the only source of information regarding investment expenses. After considering its Committee's feedback, the Board decided that, given financial statements are the primary source of information for users to make decisions, sufficient information should be provided in the financial statements to understand the expenses associated with managing the plan's investment assets and investment liabilities and the nature of those expenses.
- 47 The amendments to the presentation of administration expenses in the statement of changes in net assets available for benefits require separate presentation of "investment expenses" and "pension administration and other expenses". This replaces the previous requirement to present "administration expenses" in paragraph 4600.25. The AcSB thinks that amending the presentation of administrative expenses will increase the transparency regarding the costs associated with generating investment income with the amounts shown as a separate line item on the statement of changes in net assets available for benefits.
- 48 Correspondingly, the amendments require the details of pension administration and other expenses be presented separately in accordance with paragraph 4600.27(b). The AcSB did not redeliberate the current requirement to disclose details of pension administration and other expenses included in paragraph 4600.27(b). Disclosure of administration expenses, other than investment expenses, is outside of the scope of this project.
- 49 Further, the amendments include a definition of "investment expenses" in paragraph 4600.05(pa). The definition of "investment expenses" includes examples of the types of expenses considered to be investment expenses. In listing the types of investment expenses in the definition, the AcSB does not intend for the list to be exhaustive, but instead to identify the most relevant types of investment expenses. In assessing the relevant types of investment expenses to include in the definition, the Board considered recommendations from its Committee, its research findings and comments from respondents to the Exposure Draft. In addition, to help users understand how the definition of investment expenses in paragraph 4600.05(pa) has been applied, paragraph 4600.32F(a) incorporates qualitative disclosure of the details of investment expenses by type included in the statement of net assets available for benefits.
- 50 The AcSB understands from its Committee and respondents to the Exposure Draft that custodial fees may relate to either "managing the investment assets and investment liabilities of the pension plan" or "pension administration and other expenses." For example, a custodian may process pension plan payments on behalf of the plan, which would be considered a pension administration and other expense. When classifying custodial fees in the statement of changes in net assets available for benefits, these expenses should be classified based on their nature in either "investment expenses" or "pension administration and other expenses."
- 51 In developing the definition of "investment expenses", the AcSB debated whether internal investment management costs that are not directly attributable to managing a pension plan's investment assets and investment liabilities should be allocated between investment expenses and pension administration and other expenses. The Board understands from its Committee that some pension plans perform an allocation of internal investment management costs that are not directly attributable for business purposes and, therefore, have developed an allocation methodology. Conversely, other plans do not allocate internal investment management costs that are not directly attributable; and therefore, requiring an allocation of internal investment management costs that are not directly attributable for the purpose of preparing the financial statements could reduce the quality of information. To accommodate the differences in how pension plans account for their internal investment management costs that are not directly attributable, the Board decided that the definition of investment expenses would include a choice to allocate internal investment management costs that are not directly attributable between investment expenses and pension administration and other expenses, should the pension plan assess performance in this manner. In deciding whether to allocate its investment expenses, a pension plan will need to consider its business model and provide the corresponding disclosure in paragraph 4600.32F(b).

- 52 The AcSB heard feedback on its Exposure Draft that the phrase "internal investment management costs that are directly attributable to investment assets and investment liabilities" is unclear. To provide clarity for the user as to what the plan has identified as internal investment management costs that are directly attributable, the Board added a requirement to disclose a description of the nature of internal investment management costs that are directly attributable to investment assets and investment liabilities, included in investment expenses in paragraph 4600.32F(a). This approach allows the pension plan to identify and disclose the relevant internal investment management costs.
- Applying the same rationale, the AcSB decided to add a requirement to describe the nature of internal investment management costs that are not directly attributable to investment assets and investment liabilities in paragraph 4600.32F(b).
- 53 The AcSB considered the impact on comparability of pension plan financial statements by allowing a choice for pension plans to allocate internal investment management costs that are not directly attributable to investment assets and investment liabilities (should a pension plan assess performance in this manner). The Board thinks that reducing comparability between pension plan financial statements is an acceptable trade-off to allow pension plans to report internal investment management costs as they do for performance measurement purposes. A policy choice results in the inclusion of investment expenses that are most relevant to each plan, without creating burden on pension plans to perform an allocation when they are not already doing so. Comparability of investment expenses is already challenging, as investment expenses differ by plan according to asset mix, differing business models and internal versus external investment management strategies.
- 54 The AcSB understands that investment expenses may be paid directly by the pension plan, or alternatively, they may be embedded in investment income. The Board discussed what could be considered an investment expense embedded in investment income. The Board thinks that embedded investment expenses are investment expenses that are not explicitly paid and structurally reduce investment income. Embedded investment expenses are not directly observable investment expenses. Embedded investment expenses are not included in investment expenses.
- 55 The Committee informed the AcSB that users of pension plan financial statements would benefit from an understanding of the types of investment income that contain embedded investment expenses. The Committee noted that without disclosure, it may appear that a pension plan's investment expenses are significantly less, as there is no information available to the user to indicate that certain investment expenses are embedded in investment income.
- 56 In developing the disclosure amendments, the AcSB considered whether the amount of embedded investment expenses should be quantified in the financial statements. The Committee provided feedback that determining the amount of embedded investment expenses may be costly or not possible for a pension plan to determine, and a plan may not always have the information to bifurcate the embedded investment expenses. In consideration of the Committee's feedback, the AcSB included disclosure requiring qualitative information about the types of investment income that contain embedded investment expenses. In addition, to increase transparency around the types of expenses embedded in investment income, qualitative disclosure of the details of investment expenses by type that are embedded in investment income is required.
- 57 This disclosure may include:
- (a) stating the types of investment income, as defined in paragraph 4600.25B, where there are embedded expenses (i.e., investment expenses are embedded in investment income related to alternative investments and real estate investments); and
  - (b) noting the types of investment expenses, as defined in paragraph 4600.05(pa) included in investment income (i.e., embedded investment expenses include fixed management expenses and variable performance fees).
- 58 The AcSB heard alternative views from Exposure Draft respondents, highlighting concerns with requiring qualitative disclosure of embedded investment expenses. Respondents noted that users are more interested in the quantitative impact of embedded investment expenses, that disclosures could be misleading if only a small percentage of a type of investment income is subject to embedded investment expenses and that qualitative disclosures could encourage the use of boilerplate language. The Board acknowledges that a qualitative approach has shortcomings; however, providing qualitative information about embedded expenses will allow users to ask for more information, given they have information about the type of investment expenses included in investment income. The Board decided that the many challenges and costs associated with quantifying embedded investment expenses would outweigh the benefit achieved from providing quantitative information on embedded investment expenses.
- EFFECTIVE DATE AND TRANSITION**
- 59 The Exposure Draft proposed that the amendments to Section 4600 apply to fiscal years beginning on or after January 1, 2026, with earlier application permitted. The AcSB heard from some Exposure Draft respondents that this would not provide enough time to implement the amendments, including providing education and obtaining information to implement the amendments. After considering the feedback, the Board deferred the effective date to January 1, 2027, with earlier application permitted.
- 60 Further, considering the transitional provisions discussed below, the AcSB thinks that the effective date (fiscal years beginning on or after January 1, 2027) will provide pension plans sufficient time to implement the amendments. The Board understands most pension plans do not prepare interim financial statements, except for some larger pension plans

that do so on a semi-annual basis. Therefore, unless early adopted, the amendments will first apply to annual financial statements for the year ended December 31, 2027.

- 61 The AcSB decided that these amendments are to apply as at the beginning of the earliest period presented. Therefore, the effects of the proposals would apply to the period in which the amendments are first applied and to the comparative period(s) presented. The Board thinks that the effects of these proposals should apply consistently to all periods presented in the financial statements as this approach improves comparability of financial information from year to year. In addition, the Board understands that the comparative information is often readily available.

#### **EXPOSURE FOR COMMENT**

- 62 After resolving the issues arising from the Exposure Draft process, the AcSB considered, as part of its due process, whether revisions to the proposals should be exposed for comment.
- 63 The substantive revisions have been highlighted in the relevant sections throughout this Basis for Conclusions. These revisions are changes and clarifications based on feedback received from interested and affected parties. Other than the changes and clarifications already highlighted in this Basis for Conclusions, only minor drafting changes were made. Therefore, the AcSB decided that there was no need for re-exposure.

#### **APPENDIX: COMPARISON OF FAIR VALUE DISCLOSURE REQUIREMENTS IN IFRS 13 AND THE FORMER SECTION 4600 APPENDIX**

The complete Disclosure section of IFRS 13 is shown in the left column of the table below. Where applicable, the fair value disclosure requirements in the former Section 4600 Appendix are shown beside the corresponding IFRS 13 requirements. Paragraph 27A of the former Section 4600 Appendix is excluded from this table as the corresponding IFRS 13 guidance resides in the Measurement section of IFRS 13, which pension plans already apply in accordance with paragraph 40 of Section 4600.

IFRS 13	Section 4600 Appendix
<p>91 An entity shall disclose information that helps users of its financial statements assess both of the following:</p> <ul style="list-style-type: none"> <li>(a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.</li> <li>(b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.</li> </ul>	
<p>92 To meet the objectives in paragraph 91, an entity shall consider all the following:</p> <ul style="list-style-type: none"> <li>(a) the level of detail necessary to satisfy the disclosure requirements;</li> <li>(b) how much emphasis to place on each of the various requirements;</li> <li>(c) how much aggregation or disaggregation to undertake; and</li> <li>(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.</li> </ul> <p>If the disclosures provided in accordance with this IFRS and other IFRSs are insufficient to meet the objectives in paragraph 91, an entity shall disclose additional information necessary to meet those objectives.</p>	
<p>93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of</p>	<p>27B For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:</p>

<p>this IFRS) in the statement of financial position after initial recognition:</p> <p>(a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> because the asset's fair value less costs to sell is lower than its carrying amount).</p>	
<p>(b) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).</p> <p>(c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.</p>	<p>(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.</p> <p>(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.</p> <p>...</p>
<p>(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.</p>	<p>27 An entity shall disclose for each class of financial instruments the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.</p>

	27B ...
(e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:	(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
(i) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.	(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);
(ii) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised.	(ii) total gains or losses recognised in other comprehensive income;
(iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).	(iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and
(iv) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.	(iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.
(f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.	(d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).
(g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).	
(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:	
(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those	

	<p>inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).</p>	
	<p>(ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.</p> <p>(i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.</p>	<p>(e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.</p>
94	<p>An entity shall determine appropriate classes of assets and liabilities on the basis of the following:</p> <p>(a) the nature, characteristics and risks of the asset or liability; and</p> <p>(b) the level of the fair value hierarchy within which the fair value measurement is categorised.</p> <p>The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IFRS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this IFRS if that class meets the requirements in this paragraph.</p>	
95	<p>An entity shall disclose and consistently follow its policy for determining when transfers between levels of the</p>	

<p>fair value hierarchy are deemed to have occurred in accordance with paragraph 93(c) and (e)(iv). The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:</p> <ul style="list-style-type: none"> <li>(a) the date of the event or change in circumstances that caused the transfer.</li> <li>(b) the beginning of the reporting period.</li> <li>(c) the end of the reporting period.</li> </ul>	
<p>96 If an entity makes an accounting policy decision to use the exception in paragraph 48, it shall disclose that fact.</p>	
<p>97 For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRS.</p>	
<p>98 For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.</p>	
<p>99 An entity shall present the quantitative disclosures required by this IFRS in a tabular format unless another format is more appropriate.</p>	<p>An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.</p>

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