KPMG

Pension Disclosures 2022/23 focus areas

Pensions Centre of Excellence

KPMG Audit, UK

The past year has seen unprecedent market events impacting the UK pensions industry. From rising interest rates and high inflation to gilt market and LDI volatility, 2022 has seen it all. As we approach the financial year ends of many companies across the market, our Pensions Centre of Excellence team have produced the following guide to help companies and their advisors in considering the IFRS disclosure impacts of recent events when preparing upcoming financial statements.

Focus Area	IFRS Reference	Guidance	Disclosures (where material)
Impact of market conditions on DBO and plan assets	**IAS19.135(b)**	Due to large movements in bond yields (up c240bps over 11 months to 30 November 2022) and high current levels of inflation, entities will see significant movements in both the gross defined benefit obligation and fair value of plan assets over the year, in some cases as much as a 35% reduction in the gross amounts. Such movements are required to be explained in the narrative to the financial statements to aid the understanding of the readers of the accounts.	❑ Explanation of significant movements in the defined benefit obligation and in the fair value of plan assets. ❑ Commentary on the impact of high inflation on future benefit increases, including any discretionary awards and how these have been factored into the defined benefit obligation.
Asset-liability matching	**IAS19.146 IAS19.142 IAS19.139(b)**	Disclosure is required in respect of risks and asset-liability matching strategies. There is greater focus on this area as a result of well publicised liquidity challenges faced by plans from late September 2022 through collateral calls on often leveraged hedging strategies. Investors may be expecting commentary on how plans were impacted (or not) by liquidity issues as a result of fast rising gilt yields in late September 2022. Where this has had a material impact a description in the strategic report might be useful.	❑ Explanation of the risks the plan is exposed to, including the hedging strategy taken by the plan and the targeted hedging level where useful to readers of the accounts. ❑ Linkage through to the asset split disclosures clearly indicating assets which form part of the hedging strategy. ❑ Commentary on the impact of recent market events on plan liquidity. ❑ See also page 47 of the FRC Annual Review of Corporate Reporting 2021-22
Entity's future cash-flows	**IAS19.135(c) IAS19.139(b) IAS24**	Collateral calls relating to hedging positions saw some plans turn to sponsors for support, and a range of funding support solutions were put in place, which investors may expect to be disclosed. Changes in investment allocation or hedging strategy may have longer term consequences on plan funding. Whilst the impact on plan funding in the longer term may not yet be known, the direction of travel might be helpful information.	❑ Commentary on the impact of market conditions on funding arrangements, including: ○ Any liquidity support or facilities that the company has provided ○ Any accelerated deficit funding payments that have been made. ○ Impact on the company's future cash flows
Investment strategy and allocation	**IAS19.142**	As a result falling bond and gilt valuations, plans may have been pushed to either liquidate assets in order to rebalance portfolios in line with the longer term investment strategy or to change their investment principles. The need for an increased liquidity buffer in combination with draft regulations on long term funding from the Department for Work and Pensions may lead to a move away from illiquid assets.	❑ Clear distinction of assets split by type and risk in the asset split disclosures, to a level that would enable a reader to understand the impact of key market shifts. ❑ Explanation of any significant actual or expected changes in portfolio allocation or longer term investment strategy.
Valuation of assets with a lagged value	**IAS19.142 IAS1.125/129**	Due to increased market uncertainty, assets based on a lagged valuation will require careful consideration – do those values remain an appropriate proxy for fair value or is an adjustment to NAV required? In the context of volatile equity markets, increased interest rate expectations and high inflation, entities will need to understand the extent to which these have been priced into the fair value of their investments as at the balance sheet date. Some plans may have turned to secondary markets to sell off holdings in pooled illiquid assets, perhaps at a discount to NAV. Where there has been a change in strategy resulting in the planned disposal of such investments still held at the balance sheet date, entities will need to consider whether an adjustment to the NAV for these investments is required and disclose significant estimates or judgements made accordingly.	❑ Where applicable, include lagged assets as a major source of estimation uncertainty at the period end, including nature, carrying amount, methods and key assumptions underlying the valuation. ❑ Linkage through to the asset split disclosures showing which assets are based on a lagged valuation.

Focus Area	IFRS Reference	Guidance	Expected Disclosures (where material)
Sensitivity analysis	**IAS19.145(a) IAS19.145(c) IAS1.125 IAS1.129**	Sensitivity analysis is required, both in respect of “changes in the relevant actuarial assumption that were reasonably possible" (IAS19) at the balance sheet date and where there is a “significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year” (IAS1). Where previously one range of sensitivities may have been sufficient to meet both objectives this will likely no longer be the case as movements within the next financial year could be larger and unable to be linearly extrapolated from the range of reasonably possible assumptions as at the balance sheet date. IAS1 does not limit these disclosures to the defined benefit obligation and given the focus on hedging strategies noted above investors may expect to see greater disclosure with regards the impact of movements in key assumptions on the assets.	❑ A wider range of financial assumption sensitivities, for example 0.25% and 1%. ❑ Sensitivity disclosures showing the impact of movements in key assumptions on the plan assets, either disclosed separately (preferred) or as a net movement on the total. ❑ Commentary on any changes in method used to prepare the sensitivity analysis is required by IAS19.145(c).
Liability duration	**IAS19.147**	Due to heavier discounting of cashflows that underpin the defined benefit obligation, the weighted average duration for most plans will be shorter than it has been in previous periods, perhaps by 2 to 3 years.	❑ Commentary on significant movements in the weighted average duration of the liabilities and explanation as to why the duration has moved.
Surpluses	**IAS1.122 IAS1.125 IAS1.129 IAS19.64/65 IFRIC14 IAS19.131**	With liabilities generally falling faster than assets, more entities will move into accounting surplus positions, often alongside improvements in funding levels.	❑ Key judgements made by management in assessing recoverability of surplus. ❑ Explanation of any estimation made in any adjustments posted to reduce the surplus. ❑ Where an entity sponsors multiple plans, surpluses and deficits are shown separately on the balance sheet unless there is legal right of offset.
COVID 19 impact on longevity	**IAS19.145**	The long term impact of COVID 19 on life expectancy is still unclear and an area of careful actuarial judgement.	❑ Explanation of management assumptions regarding long term mortality and the impact of COVID 19.
ESG	**TCFD**	Companies’ responses to the risks and opportunities posed by climate change and the transition to a low carbon economy are at the forefront of the minds of investors, regulators and other users of corporate reporting. Listed companies, banks or insurers with more than 500 employees are required to comply with the TCFD requirements. Large pensions plans have had to implement climate reporting obligations that were introduced under the Pension Schemes Act 2021, requiring a more comprehensive assessment of the scheme itself, and to make these publicly available.	❑ Consideration of disclosure where pension plan is invested in funds or assets that are prone to climate risk. ❑ Where further published information has been released by the scheme, a reference to where this information can be found may be useful to investors.

Note: The above is one interpretation of IFRS disclosure requirements. The guidance does not cover all IAS19 disclosure requirements, only those relevant to recent market conditions in the UK, and therefore should be considered in the context of existing pension disclosures. Management should discuss their own circumstances with their auditor based on materiality.

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